

2009

KESCO

ANNUAL REVENUE
REQUIREMENT FOR FY 2009-10



**KANPUR ELECTRICITY
SUPPLY COMPANY LIMITED**



Table of Contents

1	<i>Background.....</i>	<i>1-1</i>
1.1	Rationale.....	1-1
1.2	Kanpur Electricity Supply Company Limited.....	1-1
1.3	Transfer Scheme	1-1
1.4	Issues arising from FY 2007-08 & FY 2008-09 Tariff Order	1-2
1.5	Structure of the ARR Submission for FY 2009-10.....	1-2
2	<i>Performance Analysis of FY 2007-08 & FY 2008-09</i>	<i>2-3</i>
2.1	Review of UPERC FY 2007-08 & FY 2008-09 Tariff Order.....	2-3
2.2	Comparison of Approved & Estimated items:.....	2-4
2.2.1	Sales Forecast – Tariff Order FY 08, ARR FY 08 & Actual FY 08	2-4
2.2.2	Sales Forecast – Tariff Order FY 09, ARR FY 09 & Estimated FY 09	2-4
2.2.3	FY 08 Approved and Actual FY 08 Expense items:	2-5
2.2.4	FY 09 Approved and FY 09 Estimated Expenses items:	2-5
2.3	Efficiency Improvement Activities.....	2-6
2.3.1	Ongoing Efficiency Improvement Activities	2-6
2.3.2	Appointment of Input Based Distribution Franchisee	2-8
2.4	Capital Investment Plan.....	2-19
2.5	Loss Levels.....	2-23
3	<i>Load Forecast and Revenue Assessment.....</i>	<i>3-24</i>
3.1	Forecast Drivers.....	3-25
3.2	Category Wise Sales Results and Assumptions	3-26
3.2.1	Domestic Light, Fan & Power {LMV-1}.....	3-26
3.2.2	Commercial {LMV 2}	3-27
3.2.3	Public Lamps {LMV 3}.....	3-27
3.2.4	Institutions {LMV 4}	3-27
3.2.4.1	Institutions – Public:.....	3-27
3.2.4.2	Institutions – Private.....	3-28
3.2.5	Small and Medium Power {LMV 6}.....	3-28
3.2.6	Public Water Works {LMV 7}.....	3-28
3.2.7	Large and Heavy Power {HV 2}	3-28
3.3	Billing Determinants	3-29
3.4	Sales Forecast by Kesco	3-30
3.5	Revenue Assessment.....	3-30
4	<i>ARR for Wheeling & Retail Supply Business FY2009-10.....</i>	<i>4-33</i>
4.1	Escalation Index/Inflation Rate	4-34
4.2	Power Purchase Costs	4-35
4.3	Operation & Maintenance Expenses	4-36
4.3.1	Employee costs	4-37
4.3.2	Administration and General (A&G) Expenses.....	4-38

4.3.3	Gross Fixed Assets (GFA) Balances and Capital Formation Assumptions.....	4-40
4.3.4	Repair and Maintenance (R&M) Expenses.....	4-42
4.4	Depreciation expense	4-44
4.5	Provision for Bad and Doubtful Debts.....	4-44
4.6	Interest and Financing Costs	4-45
4.7	Other Income	4-46
4.8	Reasonable return/ Return on Equity.....	4-47
4.9	Contribution to contingency reserve	4-51
4.10	Retail & Wheeling Business ARR Summary	4-51
4.11	Wheeling and Retail Supply	4-52
5	<i>Treatment of Revenue Gap.....</i>	5-54
6	<i>Prayer.....</i>	6-56

List of Tables

<i>Table 2-1: Approved and Actual Energy Sale FY 08 (MU)</i>	2-4
<i>Table 2-2: Approved and Estimated Energy Sale FY 09</i>	2-4
<i>Table 2-3: Approved and Actual Expenses FY 08</i>	2-5
<i>Table 2-4: Approved and Estimated Expenses FY 09</i>	2-6
<i>Table 3-1: The schematic diagram for Energy flow in state of UP</i>	3-25
<i>Table 3-2: Actual Billing Determinants for FY 08</i>	3-29
<i>Table 3-3: Billing Determinants for FY 09</i>	3-29
<i>Table 3-4: Projected Billing Determinants for FY 10</i>	3-30
<i>Table 3-5: Actual and Estimated Energy Status of Kesco</i>	3-30
<i>Table 3-6: Assessment Revenue, Sales and Through Rate - FY 2008</i>	3-31
<i>Table 3-7: Assessment Revenue, Sales and Through Rate: FY 2009</i>	3-31
<i>Table 3-8: Projected Revenue, Sales and Through Rate: FY 2010 (At Current Tariff)</i>	3-32
<i>Table 3-9: Projected Revenue, Sales and Through Rate: FY 2010 (Based on Proposed Tariff by UP DisComs)</i>	3-32
<i>Table 4-1: Escalation Index</i>	4-35
<i>Table 4-2: Power Purchase Costs</i>	4-36
<i>Table 4-3: Details of Employee Cost (Rs Crs)</i>	4-37
<i>Table 4-4: A &G Expenses (Rs Crs)</i>	4-39
<i>Table 4-5: Investment Plan for FY 2007-08 (Rs Crs)</i>	4-41
<i>Table 4-6: Investment Plan for FY 2008-09 (Rs Crs)</i>	4-41
<i>Table 4-7: Investment Plan for FY 2009-10 (Rs Crs)</i>	4-41
<i>Table 4-8: Capital Formation during FY 08 (Rs Crs)</i>	4-42
<i>Table 4-9: Capital Formation during FY 09 (Rs Crs)</i>	4-42
<i>Table 4-10: Capital Formation during FY 10 (Rs Crs)</i>	4-42
<i>Table 4-11: R&M Expenses (Rs Crs)</i>	4-43
<i>Table 4-12: Provision for Bad and Doubtful Debts</i>	4-44
<i>Table 4-13: Projected Loan Balances (Rs Crs)</i>	4-45
<i>Table 4-14: Projected Interest & Finance Cost</i>	4-46
<i>Table 4-15: Other Income</i>	4-47
<i>Table 4-16: Return on Equity</i>	4-51
<i>Table 4-17: Annual Revenue Requirement</i>	4-52
<i>Table 4-18: Wheeling & Retail supply ARR</i>	4-53
<i>Table 5-1: Treatment of Revenue Gap for FY 2009-10</i>	5-54

Executive Summary:

- *This Aggregate Revenue Requirement Petition for FY2009-10 is submitted before the UP Electricity Regulatory Commission in accordance with the section 62 of Electricity Act, 2003. The application has been prepared in accordance with the UPERC (Terms & Conditions for Determination of Distribution Tariff) Regulations 2006.*
- *The ARR include past performance analysis of tariff filing, estimation of retail sales and revenue assessment at current tariff, Capital expenditure plan for current year and ensuing year.*
- *The objective of the petitioner in this filing is to contain the expenses to a reasonable level to offset inflationary pressure prevailing in the market scenario.*
- *The petitioner while estimating expenses for current & ensuing year has taken actual expenses incurred in previous years as per its audited /un audited balance sheet to derive the expenses at a reasonable level.*
- *The petitioner has endeavoured to control the employee expenses to maximum possible extent to offset inflation and keep the expenses to the approved level. However due to implementation of 6th pay commission, expenses are bound to increase. While projecting the expenses for ensuing year petitioner has adopted the same method to contain inflationary pressure and at the same time employees has been made accountable toward the consumer satisfaction and developmental works. Targets have been fixed for developmental work as well as retail business especially revenue realization and employees have been made responsible toward speedy redressal of consumers' problem.*
- *The petitioner while projecting A&G expenses for ensuing year has proposed a marginal increase in the A&G expenses to off-set inflationary pressure. However in real term it can be termed as reduction in expenses as expenses virtually remained at same level in spite of creation of additional Divisions & Circle in Kesco*
- *The petitioner has projected R&M expenses for current year taking into account actual trends and for ensuing year R&M expenses has been estimated as per methodology adopted in previous years. The petitioner has tried to optimize the R&M expenses despite steep rise in input cost. The proactive preventive maintenance initiatives and capital expenditure under various schemes has been proposed for improvement in distribution network which would result in reduction in transformer failure ensuring, improvement in quality of supply and reduction in number of break down.*
- *The petitioner while estimating the sales demand for the current year and ensuing year has considered the trend in the previous year and current year. The category wise load*

growth and connected load factor has been used for projection of energy for most of the categories.

- ***Kesco has appointed M/s Torrent Power Ltd as Input Based Distribution Franchisee and such agreement has been entered into in the FY 2009-10, on the 18th of May 2009***

The Distribution Franchisee is to take over the operations of Kesco from the 'Effective Date' which as per the agreement is defined to be a date which shall be mutually decided by Kesco and the Distribution Franchisee.

Takeover would have entailed the requirement of calculation of ARR on a two-part basis

- *ARR pertaining upto the Takeover date &*
- *ARR pertaining to Post Takeover Date*

as post takeover the cost of O&M, capital expenditure, etc would be met by the Distribution Franchisee.

The Distribution Franchisee is working towards the Takeover Date. Also, Kesco is working on various modalities on issues like staff transfer/retention the shape of which would drastically change post franchisee takeover.

Pending finalisation on such issues, Kesco was not in a position to file the ARR Petition for FY 2009-10 on time. To avoid further delay and to ensure regulatory compliance, Kesco has decided to file the ARR Petition for FY 2009-10 on a stand-alone basis without assuming the effect of takeover by the Distribution Franchisee. A separate revised Petition would be filed by the Petitioner after the Distribution Franchisee takes over the operations of Kesco and all data pertaining to the ARR would be actualised subsequently.

- *The detail Aggregate Revenue Requirement for Kanpur Electricity Supply Company Limited, are presented for consideration and approval before the Hon'ble Commission in the following pages of the Petition.*

1 Background

1.1 Rationale

Section 64 of Electricity Act, 2003 mandates that an application for determination of tariff under Section 62 shall be made by a licensee, in this context the relevant section of the UPERC (Terms & Conditions for Determination of Distribution Tariff) Regulations 2006 provide that the Distribution Licensee shall file the Aggregate Revenue Requirement (ARR)/Tariff petitions complete in all respect on or before 30th November of each year. The ARR petition shall contain the details of the estimated expenditure and the expected revenue that it may recover in the ensuing financial year at the prevailing tariff. The Petitioner has appointed M/s Torrent Power Ltd as Distribution franchisee and such agreement was signed on May 18, 2009 and the takeover by the franchisee is planned in FY 2009-10. ARR of the Petitioner would be affected by the appointment of Distribution Franchisee as items such as O&M cost, Capital expenditure, etc which would be met by the Distribution Franchisee would not form part of the Petitioner's ARR. However pending Takeover, Kesco could not file its ARR for FY 2009-10 as the takeover would have substantially changed the ARR. To avoid further delay and to ensure regulatory compliance, Kesco has decided to file the ARR Petition for FY 2009-10 on a stand-alone basis without assuming the effect of takeover by the Distribution Franchisee. A separate revised Petition would be filed by the Petitioner after the Distribution Franchisee takes over the operations of Kesco and all data pertaining to the ARR would be actualized subsequently.

1.2 Kanpur Electricity Supply Company Limited

Kanpur Electricity Supply Company Limited (hereinafter referred to as Kesco / Petitioner) is a company incorporated under the Companies Act, 1956 which is entrusted with the business of supply of electrical energy and authorized to maintain a distribution system for supplying electricity to the consumers in its area of supply.

1.3 Transfer Scheme

Consequent to Uttar Pradesh Electricity Reforms Transfer Scheme 2000, the erstwhile UPSEB was reorganized into three corporations; Uttar Pradesh Power Corporation Limited (UPPCL), to carry out the business of transmission, distribution and retail supply, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL), to carry out thermal generation, and Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL), to carry out hydro generation in the State. In addition, the Government of Uttar Pradesh transferred Tanda Thermal Power Station to the National Thermal Power Corporation (NTPC) and the Kanpur Electricity Supply Area was separated as a

subsidiary company of UPPCL and christened The Kanpur Electricity Supply Company Limited (KESCO) vide Uttar Pradesh Transfer of Kesa Zone Electricity Distribution Undertaking Scheme, 2000 notification No. 186/XXIV – 1- 2000 dated January 15th, 2000

1.4 Issues arising from FY 2007-08 & FY 2008-09 Tariff Order

The Hon'ble Commission issued joint Tariff Order for FY 2007-08 & FY 2008-09 on July 9, 2009. The Petitioner filed a petition before the Commission seeking review of certain portion of the said order.

The appeal filed by the Licensee is still pending with Hon'ble Commission.

1.5 Structure of the ARR Submission for FY 2009-10

The structure of this submission is as follows:

Section 1. Background: This contains a brief background and rationale used for the submission; major issues that describe the structure of the submission.

Section 2. Performance Analysis of ARR FY08 & FY09 Filing: This includes:

- a) A Review of UPERC FY 2007-08 & FY 2008-09 Tariff Order;
- b) Comparison of Approved items & Estimated/Actual updates
- c) Progress of various Efficiency improvement measures undertaken by Kesco
- d) Capital Investments Plan.

Section 3. Load Forecast and Revenue Assessment: This includes actual sales for FY08, estimates for FY09 and forecasts for FY10. It also includes actual billing determinants for base year FY08, estimates for FY09 and projected FY10 by consumer category. Forecast revenues for FY10 under existing tariff levels are then calculated.

Section 4. ARR for Wheeling & Retail supply Business FY2009-10: This includes the ARR forecast for 2009-10. The ARR also includes the revenue gap figures for FY10 ARR.

Section 5. Bulk Supply Tariff. This Chapter presents the Cash Gap and calculation of the Bulk Supply Tariff.

Section 6. Prayer

2 Performance Analysis of FY 2007-08 & FY 2008-09

As previously mentioned, this section contains the following:

- a)** Review of UPERC FY 2007-08 & FY 2008-09 Tariff Order;
- b)** Comparison of Approved items & Estimated/Actual updates
- c)** Progress of various Efficiency improvement measures undertaken by Kesco
- d)** Capital Investments Plan.

2.1 Review of UPERC FY 2007-08 & FY 2008-09 Tariff Order

Kesco submitted ARR and Tariff petition for FY 2008-09 on December 31, 2007 along with the information\data for FY 2007-08. This submission was in accordance with the methodology adopted in previous Tariff Order and UPERC (Terms & Conditions for Determination of Distribution Tariff) Regulations 2006.

The Hon'ble Commission issued a Tariff Order on July 9, 2008 on the determination of the Annual Revenue Requirement for the FY 2007-08 & FY 2008-09

The Petitioner filed a Review Petition against the said tariff order with a view to revise some points as the same were not found to be workable. Although the Petitioner has been making efforts to improve its performance and also trying to optimize its expenditure, it will face significant losses due to under recovery of cost through tariff if the order on FY 2007-08 & FY 2008-09 ARR is not reviewed by the Hon'ble Commission.

The Review Petition is in respect of the following matters the decision of which involves important consequences w.r.t

- Allowance of Return on Equity
- Allowance of Provision for Bad and Doubtful Debts
- Hike in Escalation Index
- Calculation of Revenue Gap – Estimation of Revenue at Existing Tariff
- Meeting the Gap – Reduction in BST/Creation of Regulatory Asset

The disposal of the Review Petition is awaited Regarding performance improvement, it may be noted that the Petitioner had registered improvement in almost all performance parameters, although not meeting the expectations of the Commission.

2.2 Comparison of Approved & Estimated items:

The aim of this section is to provide a comparison of pertinent items contained in the Tariff Order with the actual and estimated experienced to-date.

2.2.1 Sales Forecast – Tariff Order FY 08, ARR FY 08 & Actual FY 08

Table 2-1 provides a summary of Sales figure for Kesco. In order to depict the trend in Sales growth of Tariff Order FY 08 & actual FY08 figures are given in addition to Petition values for FY 08.

Table 2-1: Approved and Actual Energy Sale FY 08 (MU)

Consumer Category	Tariff Order FY 2007-08	Petition FY 2007-08	Actual FY 2007-08	Difference (c-a)/a
LMV-1: Domestic Light, Fan & Power	943.03	928.67	806.70	-14%
LMV-2: Non Domestic Light, Fan & Power	217.74	214.43	214.14	-2%
LMV-3: Public Lamps	39.75	39.15	39.12	-2%
LMV-4: Insitutions	142.27	140.10	117.74	-17%
LMV-6B: Small and Medium Power	166.89	164.35	167.90	1%
LMV-7: Public Water Works	55.00	54.16	36.38	-34%
HV-2: Large and Heavy Power	293.19	288.72	320.66	9%
Total KESCO	1857.87	1829.58	1702.64	-8%

2.2.2 Sales Forecast – Tariff Order FY 09, ARR FY 09 & Estimated FY 09

Table 2-2 provides a summary of Sales figure for FY 09. In order to depict the trend in Sale growth of Tariff Order FY 09 & actual FY09 figures are given in addition to Petition values for FY09.

Table 2-2: Approved and Estimated Energy Sale FY 09

Consumer Category	Tariff Order FY 2008-09	Petition FY 2008-09	Actual FY 2008-09	Difference (c-a)/a
LMV-1: Domestic Light, Fan & Power	1038.39	1004.45	919.84	-11%
LMV-2: Non Domestic Light, Fan & Power	239.74	231.90	231.95	-3%
LMV-3: Public Lamps	42.50	41.11	49.69	17%
LMV-4: Insitutions	156.83	151.71	34.49	-78%
LMV-6B: Small and Medium Power	183.89	177.88	187.40	2%
LMV-7: Public Water Works	59.97	58.01	41.07	-32%
HV-2: Large and Heavy Power	338.48	327.41	402.91	19%
Total KESCO	2059.80	1992.47	1867.35	-9%

2.2.3 FY 08 Approved and Actual FY 08 Expense items:

Tables 2-3 provide a comparative summary of expense items of Tariff Order FY 08 and Actual FY 08

Table 2-3: Approved and Actual Expenses FY 08

Expense Items (Rs Crs)	Tariff Order FY 2007-08	Actual FY 2007-08	Difference
Power Purchase Expense	618.52	628.69	-2%
Transmission Charges	50.03	50.61	-1%
Employee Cost	59.53	55.79	6%
A&G Expense	9.85	10.77	-9%
R&M Expenses	10.79	17.61	-63%
Interest Charges	20.70	14.42	30%
Depreciation	32.23	24.22	25%
Provision for Bad & Doubtful Debts	0.00	30.15	
Return on Equity	0.00	11.80	
Gross Expenditure	801.65	844.05	-5%
Less: Expense Capitalisation	12.37	13.12	-6%
Less: Other Incomes	2.89	3.12	-8%
Net Expenditure	786.39	827.81	-5%

2.2.4 FY 09 Approved and FY 09 Estimated Expenses items:

Table 2-4 provides a comparative summary of expense items of Tariff Order FY 09 and Estimated FY 09

Table 2-4: Approved and Estimated Expenses FY 09

Expense Items (Rs Crs)	Tariff Order FY 2008-09	Actual FY 2008-09	Difference
Power Purchase Expense	678.33	650.19	4%
Transmission Charges	59.23	57.91	2%
Employee Cost	63.40	59.58	6%
A&G Expense	10.49	12.96	-24%
R&M Expenses	11.50	17.91	-56%
Interest Charges	26.61	24.02	10%
Depreciation	39.63	28.03	29%
Provision for Bad & Doubtful Debts	0.00	32.04	
Return on Equity	0.00	14.65	
Gross Expenditure	889.19	897.30	-1%
Less: Expense Capitalisation	13.72	15.67	-14%
Less: Other Incomes	3.03	2.68	12%
Net Expenditure	872.44	878.95	-1%

2.3 Efficiency Improvement Activities

2.3.1 Ongoing Efficiency Improvement Activities

As per the directives and guidelines specified by the Hon'ble Commission towards efficiency improvement, the Licensee has made concerted efforts to bring the AT&C losses to desired levels and to increase revenue realisation. The initiatives undertaken are:

1. For proper accounting of energy & reducing chances of theft, double metering system is being implemented & thus yielding encouraging results.
2. In theft prone areas overhead conductor are being replaced with ABC (Arial Bunch Conductor). This is helping in reduction of line losses and break down which ultimately result in increase in quality of supply & consumer satisfaction and ultimately enhancing revenue of the Petitioner.
3. Special drive to check the cases of theft/unauthorized use of electricity/checking of excess load being carried out in different divisions by officers of Kesco. A Snapshot of such drive carried out by the officers of Kesco is presented in table below:

Table 2-5: Highlights of Raids Conducted by Kesco Team

Particulars	FY 2007-08	FY 2008-09	FY 2009-10 Upto July
Total Raids Conducted	12,140	21366	5974
Electricity Thefts Detected	2,356	1631	372
Detection of Illegal Connections and Other Irregularities	2,381	1270	246
Revenue Processed (in Rs lakhs)	842.61	487.96	80.41
Revenue Recovered (in Rs lakhs)	311.05	153.29	14.89
No of Disconnections	4,625	5107	2958
Reconnections plus Regularisation of Connections	1,305	1199	708
No of FIR's	339	349	70
No of Court Cases	102	25	0
No of Arrests	7	1	0

4. Special team of headquarter Engineers and Vigilance teams comprising of Kesco's officers and Police personnel's have been formed in each circle. With these teams surprise raids are conducted to direct theft of energy/Katiya connections. A Snapshot of such drive carried out by the Vigilance Team is presented in table below:

Table 2-6: Highlights of Raids Conducted by Vigilance Team

Particulars	FY 2007-08	FY 2008-09	FY 2009-10 Upto July
Total Raids Conducted	1,449	1934	435
Electricity Thefts Detected	747	456	85
Detection of Illegal Connections and Other Irregularities	370	172	35
Revenue Processed (in Rs lakhs)	490.58	298.21	42.17
Revenue Recovered (in Rs lakhs)	150.97	54.7	13.58
No of Disconnections	379	184	31
Reconnections plus Regularisation of Connections	82	123	3
No of FIR's	88	45	6
No of Court Cases	31	3	4
No of Arrests	50	4	0

5. For speedy redressal of consumer grievances, call centre has been established and Control rooms have been set up.
6. Special camps are organized to collect bill amount from the consumers and to solve their problems on the spot.

7. Regularization of illegal connections and ledgerisation of unledgerised connections is being monitored.
8. NA/NR/IDF/ADF meters are being monitored and defective meters are being changed. Timely efforts are being made to install meters on all distribution transformers.
9. Works of hand held billing, disconnections and reconnection works are being done with the help of external agencies.

2.3.2 Appointment of Input Based Distribution Franchisee

In an endeavour to improve operational efficiency of the distribution system and quality of service to its consumers, Kesco sought to bring in management expertise through public-private participation, in distribution of electricity. Based on this approach Kesco decided to appoint an Input Based Distribution Franchisee through a transparent bidding process for its supply area. Kesco's objectives of appointing a distribution franchisee, inter alia, are:

- I. To minimise Aggregate Distribution and Commercial losses
- II. To bring improvement in Metering, Billing and Revenue Collection
- III. To minimise Current Assets on account of arrears
- IV. To enhance customer satisfaction level by improving quality of service

The Electricity Act has opened new avenues for bringing in private participation in the distribution sector. The 7th proviso to Section 14 of the Electricity Act, 2003 states that:

"...in a case where a distribution licensee proposes to undertake distribution of electricity for a specified area within his area of supply through another person, that person shall not be required to obtain any separate license from the concerned State Commission and such distribution licensee shall be responsible for distribution of electricity in his area of supply"

Accordingly, a person who undertakes the distribution of electricity for a specified area on behalf of the Distribution Licensee will not be required to obtain separate license from the concerned State Electricity Regulatory Commission

After a transparent bidding process, M/s Torrent Power Ltd was appointed as Input Based Distribution Franchisee for the complete Kesco Supply area for a period of 20 years. Such agreement was entered into on May 18, 2009.

As per the Franchisee Agreement 'Effective Date' shall mean the date of handing over of the business operations of Franchisee Area by Kesco to the Distribution Franchisee. Such date shall be mutually decided by Kesco and the Distribution Franchisee

Such agreement has vested with the Distribution Franchisee, all the powers / duties / and rights which Kesco had by virtue of a distribution licensee. Kesco has agreed to sell /supply electricity to the Distribution Franchisee at Annual Input Energy rates for further distribution in the Franchisee Area by the Distribution Franchisee. The Distribution Franchisee would perform all the obligations and accept all the liabilities of Kesco as the Distribution Licensee for the Franchisee Area as stipulated in the Law, as if they were to apply to the Distribution Licensee. By virtue of the agreement, the Distribution Franchisee shall have 'Right to Use' of the Kesco distribution assets and all other rights, powers and authorities available to Kesco as a Distribution Licensee. However the ownership of the assets created before the effective date would vest with Kesco

The Distribution Franchisee will be the exclusive franchisee of Kesco in the Franchisee Area and the Distribution Franchisee shall not be entitled to assign or transfer in any manner its rights and obligations under this Agreement to its Affiliate or any third party without the prior approval of Kesco. However the Distribution Franchisee may appoint the sub-contractor(s) for outsourcing some of its activities with a prior three days written intimation to Kesco

The highlights and the important clauses of the agreement are discussed briefly in the following sections:

New Capital Expenditure

The Distribution Franchisee shall plan and implement capital expenditure to improve efficiencies, upgrade infrastructure etc. as is deemed necessary by it. Distribution Franchisee shall provide for capital expenditure to improve efficiencies, augment and upgrade infrastructure, reduction in T&D Losses and improvement in quality of supply in the Franchise Area as per its Minimum Capital Investment Plan for the contract period. The Distribution Franchisee shall make a minimum investment of Rs 400 crores out of which at least Rs 300 crores shall be invested in the first 5 years and the remaining Rs 100 crores in the next 5 years.

Such capital expenditure implemented by the Distribution Franchisee would include replacement of Distribution Assets.

The cost of all such capital investment shall be borne by the Distribution Franchisee. The input energy rates quoted by the Distribution Franchisee shall be deemed to have taken into account the cost of finance and depreciation on account of these investments.

The Distribution Franchisee shall also maintain a separate record of the Distribution Assets purchased by it with all details and particulars. It shall also make entries of these assets in the asset register

Upon expiry/termination of this Agreement, Distribution Franchisee shall hand over all the Kesco and Franchisee Distribution Assets of Franchise Area, to Kesco in working condition subject to normal wear and tear. The Distribution Franchisee shall not have a right to take back these assets, if the same are to be compensated by Kesco in terms of the Agreement.

On the expiry/termination of this Agreement, Kesco shall compensate Distribution Franchisee for the Distribution Assets added by Distribution Franchisee, to the extent funded by the Distribution Franchisee, at the depreciated value of such assets

Such assets in normal working condition shall be transferred to Kesco at the depreciated value in the audited books of accounts of the Distribution Franchisee based on the depreciation rates as approved by UPERC

Supply of Energy

Kesco shall supply minimum of 2800 MUs energy at Input Points corresponding to the expected input units of FY 2008-09 computed on annualized basis. However, this supply may vary subject to UPERC directives on load shedding. Without prejudice to the foregoing, Kesco shall not discriminate in the supply of power between the Franchisee Area and its other Distribution Divisions

Performance Improvement Targets

The Distribution Franchisee shall achieve a level of 15% ATC Losses within 7 years from the effective date. For this purpose, Aggregate Technical and Commercial Losses (ATC Losses) shall mean the sum total of technical loss, commercial losses and shortage due to non-realisation of total billed amount. The same shall be computed as

$$\{\text{Total Energy Input (MUs) less Energy Realised (MUs)}\} / \text{Total Energy Input (MUs)} * 100$$

Where, Energy Realised is the Sale of Energy (MUs) * Collection Efficiency

If the distribution franchisee fails to achieve 15% ATC Loss level based on year end ATC losses actually achieved at the end of 7 years from the effective date, then without prejudice to the other actions which Kesco can initiate against the Distribution Franchisee under this Agreement, a penalty equivalent to 10% of the revenue lost due to non-achievement of the target shall be recoverable by Kesco from the distribution franchisee

The penalty amount shall be computed similarly at the end of each year till the overall year end AT&C loss level of 15% is achieved by the Distribution Franchisee.

Arrears

Arrears have been classified in two categories:

- a) Arrears from connected live Consumers and
- b) Arrears from Permanently Disconnected (PD) Consumers

The connected live Consumers are those, which are currently legally connected to the distribution network of the Franchise Area whereas permanently disconnected Consumers are no longer connected with the distribution network

Distribution Franchisee shall maintain separate accounts for collection from arrears and collection on account of demand to Consumers for electricity supplied from the Effective Date. Kesco shall transfer the right to collect the arrears to Distribution Franchisee on the Effective Date

Distribution Franchisee shall be liable to collect the arrears from current live consumers accrued in last one month prior to Effective date on account of charges for usage of electricity. The arrears shall be collected and remitted to Kesco by the Distribution Franchisee. The Distribution Franchisee shall collect and remit amount at least equivalent to the prevailing collection efficiency taking into account the collection efficiency in the corresponding month of last year including the amount already recovered.

Kesco shall offer an incentive to Distribution Franchisee towards collection of such arrears @ 10% of total amount net of taxes and duties recovered from consumers. However the collection from current live consumers may be first appropriated towards current bill and then towards the arrears. Kesco shall not share any expenses, costs incurred by the Distribution Franchisee for such recovery.

Arrears on account of connected live Consumers, which are currently under any dispute or in the process of litigation on Effective Date, shall not to be transferred to Distribution Franchisee for recovery. The responsibility to recover such arrear shall rest with Kesco

Distribution Franchisee shall make best endeavour to collect the arrears accrued prior to Effective Date from PD Consumers. Kesco shall offer an incentive to Distribution Franchisee towards collection of such arrears @ 20% of total amount net of taxes and duties recovered from Consumers. Kesco shall not share any expenses, costs incurred by the Distribution Franchisee for such recovery

Deputation of Kesco Employees

As per the Distribution Franchisee Agreement the existing employees in Kesco will be given an option to join the Distribution Franchisee on deputation and the Distribution Franchisee will have the right to select from such list of willing employees. Period of deputation will be one year which may be extended with mutual consent. The deputationist shall be paid the pay in the scale which they were holding prior to the deputation to the Distribution Franchisee with all other components / allowances like Grade Pay, HRA, CCA, etc., including all increases in the pay and allowances from time to time on the same terms and conditions had they continued with Kesco.

The pay, dearness allowance, HRA, CCA, joining time, leave, PF/Pension contributions and medical benefits, applicable to the deputationist shall not be inferior to what is applicable to them as per Kesco rules and regulations. The Distribution Franchisee shall accordingly pay and bear the costs of pay, benefits and allowances of the deputationist as applicable to them in Kesco along with any increases or revisions in pay scales allowances and benefits from time to time as per Kesco orders. Leave salary and pensionary contribution shall be governed by relevant rules prescribed in Financial Handbook Part II to IV issued by GoUP.

As an additional compensation and benefit in lieu of deputation, the Distribution Franchisee of Kesco will pay the deputationist a fixed 'Torrent Power Special Allowance' during the period of deputation as follows:

For Class IV Deputationists	Coolie and Equivalent & above in Class IV	Rs 36,000 Per Annum
For Class III Deputationists	Lineman, Technicians and equivalent (but excluding Junior Engineer & equivalent & above in Class III)	Rs 60,000 Per Annum
	Junior Engineer & Equivalent & above in Class III	Rs 84,000 Per Annum
For Class II Deputationists	Asst Engineer & Equivalent & above in Class II	Rs 1,20,000 Per Annum
For Class I Deputationists	Executive Engineer & Equivalent	Rs 1,80,000 Per Annum
	Superintendent Engineer & Equivalent	Rs 2,10,000 Per Annum
	Chief Engineer (Level 2) & equivalent	Rs 2,40,000 Per Annum
	Chief Engineer (Level 1) & equivalent	Rs 2,70,000 Per Annum

Annualised Input Rates

The Annualised Input Rates for the agreement period are listed in table below:

S No	Commencing Year from Effective Date	Input Energy Rate (Rs/Unit)
1	1	2.00
2	2	2.08
3	3	2.12
4	4	2.16
5	5	2.19
6	6	2.23
7	7	2.23
8	8	2.23
9	9	2.23
10	10	2.23
11	11	2.23
12	12	2.23
13	13	2.23
14	14	2.23
15	15	2.23
16	16	2.24
17	17	2.25
18	18	2.26
19	19	2.27
20	20	2.30

Billing and Payment

As per the Distribution Franchisee Agreement the billing would be done as follows:

Monthly Invoice

The First Invoice raised by KESCO on the Distribution Franchisee shall correspond to the energy input between first day and thirtieth day from the Effective Date and shall be computed as below:

$$MI = (RIEM + WCM + TOSEM + SDNM + P) - (CARPDRM + CARCLRM)$$

Where

RIEM = Revenue for Input Energy as per Joint Measurement

It shall be computed as below:

$$RIEM = EIM * AIRN * TIRN$$

Where, EIM = Energy input in the Franchise Area during the month, which shall be the energy purchased from KESCO.

AIR_N = Annualized Input Rate applicable for the year as per Annexure-4.

TIR_N = AT_N / AT Base Year

Tariff Indexing Ratio applicable to the billing period, calculated as ratio of prevailing average tariff for that billing period as applicable to all Consumers in the Franchise Area (AT_N) and average tariff as applicable to all Consumers in the Franchise Area in Base Year. Average tariff shall be computed as sum product of total billed units and approved tariff in each Consumer category divided by total billed units in all Consumer categories. The Tariff Indexing Ratio shall be computed for every month and the same shall be used for computation of the revenue for Input Energy for units supplied to the Distribution Franchisee in the respective calendar month. Approved Tariff for this purpose shall mean the tariff and the applicable Fuel Surcharge Adjustment (FSA) approved by UPERC

The indexation shall be based on the change of tariff as applicable to all the KESCO consumers in the Distribution Franchisee Area. The indexation shall be weighted average of units billed for each category in the relevant period and the applicable average tariffs considering all the elements of tariff except those in the nature of taxes / duties, interest income and delayed payment charges.

For the purpose of computation of indexation ratio, average tariff as applicable to all KESCO Consumers in Distribution Franchisee area for FY 2008-09 shall be applicable based on the accounts information available. However, this figure shall be audited by one of the Big Three Accounting firms for finalization. The fees for such audit shall be borne equally by the Distribution Franchisee and KESCO.

WCM = Wheeling Charges applicable to energy procured over and above the quantity purchased from KESCO for the Month computed as per UPERC regulations

$TOSEM$ is the Tax on Sale of Electricity leviable as per applicable Law during the billing period

$SDNMM$ is the Security Deposit and System Loading Charges collected for new connections issued during the period and for which information has been received as per Article-

P is the penalty leviable on the Distribution Franchisee for delay on account of previous payments and shall be computed @18% per annum quarterly compounded on the outstanding amount.

CARPDRM is the Credit available to the Distribution Franchisee for incentive on account of arrears from the HT/ LT permanently disconnected Consumers collected and remitted to KESCO during this billing cycle and shall be computed as below:

$$\text{CARPDRM} = 0.2 * \text{ARPDRM}$$

Where ARPDRM is the amount of arrears on account of permanently disconnected Consumers prior to the Effective Date collected and remitted by the Distribution Franchisee to KESCO during this billing cycle.

CARCLRM is the Credit Available to the Distribution Franchisee for incentive on account of arrears from the HT/ LT current live Consumers collected and remitted during this billing cycle and shall be computed as below:

$$\text{CARCLRM} = 0.1 * \text{ARCLRM}$$

Where ARCLRM is the amount of arrears on account of HT/ LT current live Consumers, accrued three months prior to the Effective Date collected and remitted by the Distribution Franchisee to KESCO during this billing cycle

Fortnightly Invoice

The second and third Invoice raised by KESCO on the Distribution Franchisee shall correspond to the energy input between 31st and 45th day from the Effective Date and 46th and 60th day from the Effective Date and shall be computed as below:

$$\text{FI} = (\text{RIEF} + \text{WCF} + \text{TOSEF} + \text{SDNF} + \text{P}) - (\text{CARPDRF} + \text{CARCLRF})$$

Where:

RIEF = Revenue for Input Energy for the fortnight

It shall be computed as below:

$$\text{RIEF} = \text{EIF} * \text{AIRN} * \text{TIRN}$$

Where, EIF= Energy input in the Franchise Area during the fortnight, which shall be the energy purchased from KESCO

AIRN= Annualized Input Rate applicable for the year as per Annexure-4

TIRN= ATN / AT Base Year

Tariff Indexing Ratio applicable to the billing period, calculated as Ratio of prevailing average tariff for that billing period as applicable to all Consumers in the Franchise Area (ATN) and average tariff as applicable to all HT/ LT Consumers in the Franchise Area in Base Year. Average tariff shall be computed as sum product of total billed units and approved tariff in each Consumer category divided by total billed units in all Consumer categories. The Tariff Indexing Ratio shall be computed for every month and the same shall be used for computation of the Revenue for Input Energy for units supplied to the Distribution Franchisee in the respective calendar month. Approved Tariff for this purpose shall mean the tariff and the applicable Fuel Surcharge Adjustment (FSA) approved by UPERC.

The indexation shall be based on the change of tariff as applicable to all the HT/LT KESCO consumers in the Distribution Franchisee Area. The indexation shall be weighted average of HT/ LT units billed for each category in the relevant period and the applicable average tariffs considering all the elements of tariff except those in the nature of taxes / duties, interest income and delayed payment charges.

For the purpose of computation of indexation ratio, average tariff as applicable to all KESCO Consumers in Distribution Franchisee area for FY 2007-08 shall be applicable based on the accounts information available. However, this figure shall be audited by one of the Big three Accounting firms for finalization. The fees for such audit shall be borne equally by the Distribution Franchisee and KESCO.

WCF = Wheeling Charges applicable to energy procured over and above the quantity purchased from KESCO for the fortnight computed as per UPERC regulations

TOSEF is the Tax on Sale of Electricity leviable as per applicable Law during the billing period

SDNF is the Security Deposit and System Loading Charges collected for new connections issued during the period

P is the penalty leviable on the Distribution Franchisee for delay on account of previous payments and shall be computed @18% per annum quarterly compounded on the outstanding amount.

CARPDRF is the Credit available to the Distribution Franchisee for Incentive on account of arrears from the HT/ LT permanently disconnected Consumers collected and remitted to KESCO during this billing cycle and shall be computed as below:

$$\text{CARPDRF} = 0.2 * \text{ARPDRF}$$

Where ARPDRF is the amount of arrears on account of HT/ LT permanently disconnected Consumers prior to the Effective Date collected and remitted by the Distribution Franchisee to KESCO during this billing cycle.

CARCLRF is the Credit available to the Distribution Franchisee for Incentive on account of arrears from the current live HT/ LT Consumers collected and remitted during this billing cycle and shall be computed as below:

$$\text{CARCLRF} = 0.1 * \text{ARCLRF}$$

Where ARCLRF is the amount of Arrears on account of current live HT/ LT Consumers, accrued three months prior to the Effective Date collected and remitted by the Distribution Franchisee to KESCO during this billing cycle

Weekly Invoice

Subsequent to the third invoice, KESCO shall raise weekly invoices commencing from the first of every calendar month and for the remaining period in the calendar month for which the third invoice has been issued. However, the invoice for the fourth week of the month shall be issued for the charges of the remaining days in the calendar month as illustrated below:

No of days in the month	Duration of the last invoice	No of days billed
31	22 nd Day – 31 st Day	10
30	22 nd Day – 30 th Day	9
29	22 nd Day – 29 th Day	8
28	22 nd Day – 28 th Day	7

The Weekly Invoice to be raised by Kesco on the Distribution Franchisee shall be calculated as below:

$$\text{WI} = (\text{RIEW} + \text{WCW} + \text{TOSEW} + \text{SDNW} + \text{P}) - (\text{CARPDRW} + \text{CARCLRW})$$

Where:

RIEW = Revenue for HT/ LT Input Energy for the week

It shall be computed as below:

$$\text{RIEW} = \text{EIW} * \text{AIRN} * \text{TIRN}$$

Where, EIW= Energy input in the Franchise Area during the week, which shall be the energy purchased from KESCO

AIRN= Annualized Input Rate applicable for the year

TIRN= ATN / AT Base Year

Tariff Indexing Ratio applicable to the billing period, calculated as Ratio of prevailing average tariff for that billing period as applicable to all Consumers in the Franchise Area (ATN) and average tariff as applicable to all Consumers in the Franchise Area in the Base Year. Average tariff shall be computed as sum product of total billed units and approved tariff in each Consumer category divided by total billed units in all Consumer categories. The Tariff Indexing Ratio shall be computed for every month and the same shall be used for computation of the Revenue for Input Energy for units supplied to the Distribution Franchisee in the respective calendar month. Approved Tariff for this purpose shall mean the tariff and the applicable Fuel Surcharge Adjustment (FSA) approved by UPERC.

The indexation shall be based on the change of tariff as applicable to all the Kesco consumers in the Distribution Franchisee Area The indexation shall be weighted average of units billed for each category in the relevant period and the applicable average tariffs considering all the elements of tariff except those in the nature of taxes/duties, interest income and delayed payment charges.

For the purpose of computation of indexation ratio, average tariff as applicable to all KESCO Consumers in Distribution Franchisee area for FY 2007-08 shall be applicable based on the accounts information available. However, this figure shall be audited by one of the Big Three Accounting firms for finalization. The fees for such audit shall be borne equally by the Distribution Franchisee and Kesco.

WCW = Wheeling Charges applicable to HT/ LT energy procured over and above the quantity purchased from KESCO for the week computed as per UPERC regulations

TOSEW is the Tax on Sale of Electricity leviable as per applicable Law during the billing period.

SDNW is the Security Deposit and System Loading Charges collected for new connections issued during the previous billing cycle

P is the penalty leviable on the Distribution Franchisee for delay on account of previous payments and shall be computed @18% per annum quarterly compounded on the outstanding amount

The Distribution Franchisee is working towards the Takeover of operations. ARR of the Petitioner would be affected by the appointment of Distribution Franchisee as items such as O&M cost, Capital expenditure, etc as discussed in the foregoing sections would be met by the Distribution Franchisee would not form part of the Petitioner's ARR. However pending Takeover, Kesco could not file its ARR for FY 2009-10 as the takeover would have substantially changed the ARR. To avoid further delay and to ensure regulatory compliance, Kesco has decided to file the ARR Petition for FY 2009-10 on a stand-alone basis without assuming the effect of takeover by the Distribution Franchisee. A separate revised Petition would be filed by the Petitioner after the Distribution Franchisee takes over the operations of Kesco and all data pertaining to the ARR would be actualized subsequently.

2.4 Capital Investment Plan

Large investments have been planned in order to reduce T&D losses, maintaining reliable supply and to achieve rural electrification targets. In the past the desired results could not be obtained due to severe fund constraints. To achieve the desired objective an aggressive investment plan has been envisaged for all the state owned distribution companies including Kesco. In such investment plan the capital expenditure schemes are divided into two categories namely, Government Schemes and Schemes funded from financial institutions. The State Government is primarily providing funds for implementing schemes of rural electrification. As Kesco is catering to supply to the urban areas only there is no investment under the Government Schemes The various schemes under which the capital expenditure programs are envisaged are detailed below:

I. Ambedkar Gram Sabha Vikas Yojana:

This scheme has been envisaged by the State Government with a view to achieve 100% rural electrification in the State. Under this scheme some majras of each Gram Sabha are selected each year for electrification. As Kesco is catering to supply to urban areas only no investment under this head was proposed for Kesco.

II. Rural Electrification Programme - RGGVY

Rural Electrification Program- RGGYY contemplates electrification of villages and strengthening the existing network in the rural areas to achieve universal access to electricity for all households. Under this scheme following work is performed:

- Electrification of un-electrified hamlets

- Strengthening of Distribution system under RGGVY for providing electricity to all BPL household
- Electrification of the villages electrified as per CEA
- Conversion of villages/hamlets electrified from LT mains to HVDS
- Providing electricity to all rural households including free connection to BPL households
- Strengthening of Rural electricity Distribution backbone
- Electrification of remote villages (Stand alone)

Under the RGGVY programme the central government provides a grant of 90% of the project cost for each scheme of village electrification and the balance 10% of the fund is provided by the State Government. However, the GoUP provides the entire fund required for schemes under the RGGVY programme in the form of equity to the DisCom

No investment under RGGVY was proposed for Kesco as it supplies energy only to the urban areas.

III. Energisation of Private Tube Wells (PTW).

To cope with the growing demand of agriculture in the State, the electrification of private tube wells has always been of much importance in the investment plan. However for Kesco there was no investment under this head as Kesco supplies energy only to the urban areas..

IV. Other Schemes

A large part of the distribution network is very old and needs major overhauling or replacement. Petitioner has identified some major assets that are in dire need of replacement. Major items covered under the requirement of replacement are poles, overhead conductors, wires, and switchgears.

Apart from replacement of the old and dilapidated assets there are ongoing requirement of network and infrastructure augmentation to cater to the load growth occurring due to regular increase in load in existing set-up as well as due to large-scale electrification of rural areas. Also, there is a significant requirement of improving the systems and processes of the distribution business of the petitioner to achieve better efficiency of operations, e.g. billing accuracy and procedure, material and financial management etc. Therefore the petitioner has also planned to invest significantly in IT systems for achieving such objectives.

V. Replacement and Strengthening of worn-out poles and conductors

In the distribution area large scale replacement of worn out poles and conductors are urgently needed. Under this scheme about 300 Nos of worn out conductors and around 3100 no

damaged poles have been planned to be replaced during FY 2009-10. This is important for reducing losses and in reduction of occurrence of accidents

VI. Replacement of Switchgears

The switchgears installed at most of the 33/11kV substations also needs replacement. For the first time Petitioner has started to replace the old switchgears, which have lived beyond their economic life and needs replacement. These replacements are necessary to ensure safety and proper operation of protection systems. In FY 2009-10 it has been planned to replace 40 no of switchgears in FY 2009-10. Thereafter, on a continual basis the petitioner plans to replace all the old switchgears of the systems in a phased manner.

VII. Augmentation of Distribution Network

For any distribution system it is important to augment the network on a continual basis to cater to the load growth and achieving optimal operating efficiency of the distribution equipment. With the increasing demand of power and to balance the load distribution, an investment of Rs 31.34 cr has been planned for creation of new 33/11kV substations in FY 2009-10.

VIII. Bifurcation of Industrial Feeders

At present most of the industrial consumers and consumers of other categories are connected to the same feeder. To ensure uninterrupted supply to consumers and better energy auditing, the petitioner has planned to segregate the industrial consumer feeders from other category consumers. An investment of Rs 5.83 crore has been planned in FY 2009-10 which envisages separation of 11kV feeders.

IX. Metering of Consumers

Large numbers of meters are required for providing new connections as well as for replacement of defective meters for effective energy accounting .At present large section of the consumers are not correctly metered due to defective metering. This needs immediate replacement. Presently the Petitioner is releasing all the new connections with meter. In FY 2009-10 there is a plan to install about 15,280 single phase meters and about 200 three phase meters (including replacement of defective meters). For current year this envisages an investment of Rs. 2.46 crore.

X. Installation of Arial Bunched Conductor

Unauthorized consumption of electricity is the most important area of concern for the petitioner. The major component of losses in distribution is commercial losses, which is primarily due to theft. In order to reduce the same the existing over head lines are envisaged to be replaced by Arial Bunched Conductors (ABC) which is less prone to theft. The investment

plan envisaged an investment of Rs. 75.22 crore for FY2009-10 by way of equity from Go UP and loan from financial institution covering 1300 kms

XI. Information Technology

Kesco is now planning to use various Information Technology (IT) initiatives to drive operational efficiency improvement. The investment plan has accordingly estimated an investment of Rs 5.90 crs FY 2009-10 in IT implementation. This budget is primarily for:

- Implementation of software solutions
- Hardware to support the software
- Networking (both Local Area Network and Wide Area network)
- IT Services (support to run the IT system)

IT solutions are urgently required in following area:

- Billing and Revenue Collection (Retail Billing Solution):
- Finance and Accounts
- Material Management
- Energy Billing System
- Energy Accounting System

Simultaneously when the above Investment plan was envisaged, the Petitioner decided to appoint an Input Based Distribution Franchisee. It is noteworthy to reiterate that the Distribution Franchisee agreement imposes express conditions on monetary minimum limits for implementing New Capital Expenditure in the Kesco supply area.

Para 5.2 of the Distribution Franchisee Agreement title “New Capital Expenditure” states

-

“The Distribution Franchisee shall plan and implement capital expenditure to improve efficiencies, upgrade infrastructure etc. as is deemed necessary by it. Distribution Franchisee shall provide for capital expenditure to improve efficiencies, augment and upgrade infrastructure, reduction in T&D Losses and improvement in quality of supply in the Franchise Area as per its Minimum Capital Investment Plan for the contract period. The Distribution Franchisee shall make a minimum investment of Rs 400 crores out of which at least Rs 300 crores shall be invested in the first 5 years and the remaining Rs 100 crores in the next 5 years.”

Thus the Distribution Franchisee would necessarily make an investment of Rs 400 crores in the next ten years out of which Rs 300 crores would be made in the initial 5 years. As a matter of proprietary, Kesco has decided to withhold all capital expenditure schemes envisaged in the

Investment Plan as the Distribution Franchisee will take over the operations in the ensuing year. However in special cases where the envisaged investment is utmost important to improve the quality of supply or in cases where such investment is important from the point of view of the maintenance & safety of the line & network, only then such Capital expenditure is being made. Also there are some spill-overs of previous year's capital expenditure which are being carried out in FY 2009-10.

Once the Distribution Franchisee takes over the operations from Kesco, the Petitioner would suitable approach the Hon'ble Commission to true-up the Capital Expenditure based on actuals for FY 2009-10.

2.5 Loss Levels

T&D Losses

The Hon'ble Commission had set a Distribution Loss target of 28.97% & 25.00% for FY 2008 & FY 2009 respectively. In FY 2008, beside all out efforts Petitioner could not achieve Targets set by the Commission but it is worth mentioning that in FY 2008-09 Petitioner has substantially reduced the distribution losses from 36.1% in FY 08 to 29.1% in FY 09. For FY 2009-10 Petitioner on has projected a distribution loss target of 26%. The Petitioner through the appointment of distribution franchisee expects to reduce the distribution losses substantially after the takeover date. Once the takeover is completed the Petitioner would suitably approach the Hon'ble Commission for Revision of Distribution Loss Targets.

Collection Efficiency:

The Hon'ble Commission had set a Collection Efficiency Target of 95% in FY 2007-08 & FY 2008-09. As against this the Petitioner could achieve 82.9% & 86.5% collections in FY 2007-08 & FY 2008-09 respectively. The Petitioner projects to achieve a Collection Efficiency of 94% in FY 2009-10.

The Petitioner through the appointment of distribution franchisee expects to increase the Collection Efficiency to the benchmark levels prescribed by the Hon'ble Commission after the takeover date. Once the takeover is completed the Petitioner would suitably approach the Hon'ble Commission for Revision of Collection Efficiency Targets.

3 Load Forecast and Revenue Assessment

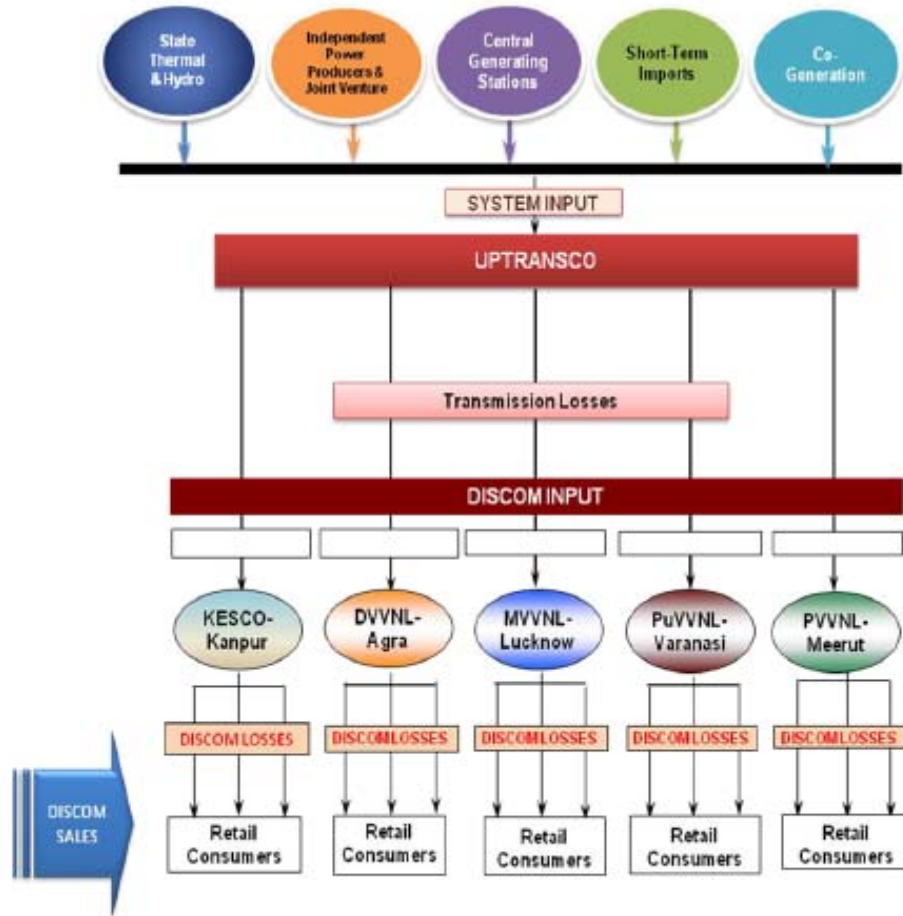
The Load forecast methodology presented in this chapter gives forecast of energy requirement and peak demand requirement for FY09 & FY 10 taking into consideration of updated parameters and FY 08 as Actual base year. It also gives the category-wise sales projections for the above period. This forecast is developed mainly upon the available population data, the expected conversion of unauthorized connections, connected load factor and specific growth factors. The category wise load growth is used for projection of energy for most of the categories.

The forecast projects the specific consumption level (consumption per customer) appropriate for each customer category. This forecast is based on expected growth relationships to income and price, the effect of Demand Side Management and the impact of extended hours of service. The specific consumption level along with the number of customers in each category gives the sales figure for that particular sub-category. The final detailed calculations estimate the connected load by tariff category.

The division level forecasts are consolidated and losses are added to the sales estimates to determine energy generation requirements.

The schematic diagram for Energy flow in state of UP is depicted in figure below:

Table 3-1: The schematic diagram for Energy flow in state of UP



3.1 Forecast Drivers

The forecasts are based on a set of forecasts drivers / assumptions, principal among these are:

- Number of consumers/ connections – Consumer growth due to development of housing colonies, commercial establishments and new projects, etc
- Increase in the number of existing consumers (presently indulging in unauthorised abstraction of power) falling into billing net due to various efficiency improvement measures
- Normative growth in the specific consumption of the existing consumers in the billing net
- Replacement of burnt/defective/tampered meters and transformers
- Connected load per consumer/connection

- Connected Load
- Connected Load Factor
- Hours of supply

The approach used in the study is as follows:

- The connected load projection is made by projecting number of consumer and connected load per consumer or by directly projecting the connected load depending on the type of category for which the type of data available.
- Initially hours of supply for entire horizon is assumed equal to the base year hours of supply

3.2 Category Wise Sales Results and Assumptions

This section provides further details with respect to assumptions made in estimating number of consumers, specific consumption per consumer and total sales in MU for each consumer category.

3.2.1 Domestic Light, Fan & Power {LMV-1}

In FY 2008-09 the annual average numbers of consumer were 3.99 lakh. The number of consumers under this category is forecasted to grow at 3.3% which is the five year CAGR. Such annual growth is driven by urban population growth and expected change of household size. The increase also reflects effect of the regularization drive undertaken in the current year. The licensee is upbeat in carrying out the connection regularisation drive and hence has assumed this growth rate.

With respect to the specific consumption of the Domestic category consumers, annual consumption is expected to increase due to various improvement measures (installation of ABC's, raids, etc) undertaken by the licensee during the current year and other factors referred above including capital expenditure. The licensee assumes an increase of 5% in the specific consumption over FY 2008-09. The specific consumption for the ensuing year hence works out to 2,418 units per annum per consumer in FY 2009-10 in comparison to 2,302 units in FY 2008-09. Hence the consumption for this category of consumer is estimated to be 997.8 MU.

The average contract load for domestic consumers was 2.27 KW in FY 2008-09 and it is expected to rise 2.41 KW in FY 2009-10.

3.2.2 Commercial {LMV 2}

As in the domestic category, similar principle is being followed for this category of consumers. The increase in the consumers has been estimated at the past five year CAGR of 4% which would reflect the growth in the service sector. The no of consumers have been forecasted at 0.904 lakh.

The estimation of the specific consumption is also based on the same principles as envisaged in the domestic category. The specific consumption is estimated to be 2,824 units in ensuing year in comparison to 2,689 units in FY 2008-09 per annum per consumer. The forecast increase in specific consumption is over 5% after considering efficiency improvement measures and raid drives to regularize katiya connections. The total consumption for the ensuing year is 255.3 MU.

3.2.3 Public Lamps {LMV 3}

In FY 2008-09 under this category there were 18 consumers having total consumption of 49.7 MU.

The total numbers of consumers under this category were 18 in the month of June 2009. As the number of consumers listed in this category reflects the number of supply points rather than the number of lamps, growth in the number of consumers has little meaning. It is therefore assumed that the growth in the number of lamps, as well as any changes with respect to operations, will be captured in the assumed growth rates for specific consumption.

Electricity sales for FY10 are forecasted to be 52.2 MU

3.2.4 Institutions {LMV 4}

This category includes public institutions and private institutions, which are forecast separately.

3.2.4.1 Institutions - Public:

The category of public and private institution had been introduced in the year FY 02, these set of consumers were existing in the Domestic category, which were later on reclassified to LMV-4 in FY 03. This category has been further bifurcated by honourable commission into two categories viz. LMV 4A and LMV 4B and separate tariff rates were provided.

The number of consumers is expected to grow at the rate of past five years CAGR of 6.4% with thereby projecting 180 consumers under this category for the FY 2009-10. The specific

consumption is estimated to rise by 5% in the ensuing year and hence the total consumption for this category of consumers is estimated at 6.2 MU

3.2.4.2 Institutions – Private

The numbers of consumers is projected at 732 for FY 2009-10 which is based on the last five year CAGR of 2.3%. The licensee foresees an increase of 5% in the specific consumption level for this category of consumers and hence the total consumption for this category of consumers is estimated at 31.2 MU

3.2.5 Small and Medium Power {LMV 6}

It is assumed that the number of consumers would increase based on the last five years CAGR of 6.6%, thereby the projection for the total number of consumers for FY 2009-10 is expected to be 9146 consumers. With respect to the specific consumption, it is expected to increase by 5% due to the strict enforcement by the Petitioner. The Electricity sales for FY10 are projected to be 209.7 MU

3.2.6 Public Water Works {LMV 7}

It is projected that the number of public water works consumers will grow at 5% in FY10 which is also the CAGR of last five years, reflecting the growth of population and urbanization. Regarding specific consumption, it is assumed that consumers will exhibit marginal improvement in their average consumption levels. The electricity sales are projected to be 45.3 MU

3.2.7 Large and Heavy Power {HV 2}

The numbers of consumers in this category are expected to increase by 8% to 584 consumers' connections based on the last five years CAGR rate. Specific consumption is expected to grow by 5% following the industrial GDP growth and due to initiatives of strict enforcement like raid drives, etc. The projected electricity sales for FY 2009-10 is 456.7 MU

3.3 Billing Determinants

The detailed category wise data for Previous Year FY 2007-08 is placed in Table 3-2 and the detailed category wise parameter of Current Year and Ensuing Year are placed in Table 3-3 & Table 3-4 based on the above forecast are tabulated below.

Table 3-2: Actual Billing Determinants for FY 08

Consumer Category	Number of Consumers	Connected Load (in KW)	Progressive Units Sold (MU)
LMV-1: Domestic Light, Fan & Power	377312	658824	806.7
LMV-2: Non Domestic Light, Fan & Power	84178	233649	214.1
LMV-3 (Public Lamps)	19	11414	39.1
LMV-4A (Public Institutions)	134	10531	101.9
LMV-4B (Private Institution)	687	8332	15.8
LMV-6B (Small & Medium Power)	6773	127978	167.9
LMV-7 (Public Water Works)	438	10441	36.4
HV-2 (Large & Heavy)	520	188290	320.7
Total	470061	1249459	1702.6

Table 3-3: Billing Determinants for FY 09

Consumer Category	Number of Consumers	Connected Load (in KW)	Progressive Units Sold (MU)
LMV-1: Domestic Light, Fan & Power	399495	904958	919.8
LMV-2: Non Domestic Light, Fan & Power	86245	216559	231.9
LMV-3 (Public Lamps)	18	13294	49.7
LMV-4A (Public Institutions)	169	3805	5.5
LMV-4B (Private Institution)	715	11004	29.0
LMV-6B (Small & Medium Power)	8582	94679	187.4
LMV-7 (Public Water Works)	720	18527	41.1
HV-2 (Large & Heavy)	541	161832	402.9
Total	496485	1424657	1867.3

Table 3-4: Projected Billing Determinants for FY 10

Consumer Category	Number of Consumers	Connected Load (in KW)	Progressive Units Sold (MU)
LMV-1: Domestic Light, Fan & Power	412736	981700	997.8
LMV-2: Non Domestic Light, Fan & Power	90406	238357	255.3
LMV-3 (Public Lamps)	18	13958	52.2
LMV-4A (Public Institutions)	180	4255	6.2
LMV-4B (Private Institution)	732	11829	31.2
LMV-6B (Small & Medium Power)	9146	105945	209.7
LMV-7 (Public Water Works)	756	20425	45.3
HV-2 (Large & Heavy)	584	188670	456.7
Total	514558	1565141	2054.3

3.4 Sales Forecast by Kesco

The detailed sales forecast as described in Section 3.2 and the distribution losses based on the targets provided in Section 2 may be added to arrive at the Estimated Purchases required to be made by Kesco. This is shown in Table 3-5 as under:

Table 3-5: Actual and Estimated Energy Status of Kesco

Particulars	Unit	FY 2007-08	FY 2008-09	FY 2009-10
Purchases Required	MU	2664	2632	2776
Line Losses	MU	961	765	722
Sales	MU	1703	1867	2054
T&D Losses	%	36.1%	29.1%	26.0%

3.5 Revenue Assessment

The detailed sales forecast described in the previous sections combined with the billing determinant information provided in foregoing sections, may be used for assessment revenues for FY08 & FY09 and projected revenue on current year tariff for FY10

Table 3-6 represents revenue assessment for FY08, which is derived from weighted average tariff effective from dt.01/12/04 (4.4 m), dt.13/08/07 (2.9 m) and dt.11/11/07 (4.7 m) from UPERC Tariff Order FY 2004-05, TO FY 2006-07 and TO 2007-08.

Table 3-7 tabulates estimated revenue for FY09, which is derived based on weighted average tariff effective from dt. 11/11/07(1.0 m) and dt. 27/04/08(11.0 m) from UPERC Tariff Order FY 2007-08 and TO FY 2008-09.

Table 3-8 tabulates projected revenue for FY10, on Proposed Tariff based on Tariff Filing by the State-owned Distribution Companies for the FY 2009-10.

Table 3-6: Assessment Revenue, Sales and Through Rate - FY 2008

Consumer Category	Assessment Revenue (Rs Crs)	Electricity Sales (MU)	Through Rate (Rs/kWh)
LMV-1: Domestic Light, Fan & Power	238.22	807	2.95
LMV-2: Non Domestic Light, Fan & Power	97.25	214	4.54
LMV-3 (Public Lamps)	11.41	39	2.92
LMV-4A (Public Institutions)	30.79	102	3.02
LMV-4B (Private Institution)	6.24	16	3.95
LMV-6B (Small & Medium Power)	82.60	168	4.92
LMV-7 (Public Water Works)	18.64	36	5.12
HV-2 (Large & Heavy)	160.31	321	5.00
Total	645.47	1703	3.79

Table 3-7: Assessment Revenue, Sales and Through Rate: FY 2009

Consumer Category	Assessment Revenue (Rs Crs)	Electricity Sales (MU)	Through Rate (Rs/kWh)
LMV-1: Domestic Light, Fan & Power	259.53	920	2.82
LMV-2: Non Domestic Light, Fan & Power	105.46	232	4.55
LMV-3 (Public Lamps)	16.11	50	3.24
LMV-4A (Public Institutions)	2.73	6	4.95
LMV-4B (Private Institution)	11.36	29	3.92
LMV-6B (Small & Medium Power)	91.19	187	4.87
LMV-7 (Public Water Works)	19.24	41	4.68
HV-2 (Large & Heavy)	200.35	403	4.97
Total	705.96	1867	3.78

Table 3-8: Projected Revenue, Sales and Through Rate: FY 2010 (At Current Tariff)

Consumer Category	Assessment Revenue (Rs Crs)	Electricity Sales (MU)	Through Rate (Rs/kWh)
LMV-1: Domestic Light, Fan & Power	281.54	998	2.82
LMV-2: Non Domestic Light, Fan & Power	116.08	255	4.55
LMV-3 (Public Lamps)	16.91	52	3.24
LMV-4A (Public Institutions)	3.05	6	4.95
LMV-4B (Private Institution)	12.21	31	3.92
LMV-6B (Small & Medium Power)	102.05	210	4.87
LMV-7 (Public Water Works)	21.21	45	4.68
HV-2 (Large & Heavy)	227.09	457	4.97
Total	780.13	2054	3.80

Table 3-9 presents the forecast Revenue Assessment based on the Proposed Tariff Hike as per Tariff Petition by the state owned Distribution Companies for the financial year 2009-10 filed on July 30, 2009

Table 3-9: Projected Revenue, Sales and Through Rate: FY 2010 (Based on Proposed Tariff by UP DisComs)

Consumer Category	Assessment Revenue (Rs Crs)	Electricity Sales (MU)	Through Rate (Rs/kWh)
LMV-1: Domestic Light, Fan & Power	383.46	998	3.84
LMV-2: Non Domestic Light, Fan & Power	133.60	255	5.23
LMV-3 (Public Lamps)	21.31	52	4.08
LMV-4A (Public Institutions)	3.22	6	5.22
LMV-4B (Private Institution)	14.00	31	4.49
LMV-6B (Small & Medium Power)	109.88	210	5.24
LMV-7 (Public Water Works)	23.03	45	5.09
HV-2 (Large & Heavy)	242.02	457	5.30
Total	930.51	2054	4.53

4 ARR for Wheeling & Retail Supply Business FY2009-10

The Objective of the Petitioner while estimating Aggregate Revenue Requirement has been to reduce or at least contain the expenses to the extent possible thereby reducing cost burden on the consumers. For the current year petitioner has endeavored to limit most of the expenses within the budget approved by Hon'ble commission in its last Tariff Order with some exception which were totally beyond the control of the petitioner.

In the ensuing year the petitioner has taken up the challenge to control most of the operating expenses with in the current year level with moderate hike to only overcome the rising inflation. The petitioner is making all round effort to improve quality of supply and customer service level for this purpose. In spite of petitioner's effort to control expenses the total Revenue Requirement has risen due to mainly uncontrollable factor such as power purchase cost. Petitioner would like to highlight that all the revenue realized has been utilized in making power purchase cost, this is due to the fact that there is vast difference in revenue calculation of Hon'ble commission and the petitioner at existing Tariff order, Commission's revenue calculation is on higher side which is not at all achievable. For this Petitioner has requested the Hon'ble commission through a Review Petition, to modify the figures provided in the FY 2008-09 Tariff Order, the decision on which is awaited. Again the petitioner would like to highlight that the projected revenue assessment of petitioner for current year as well as ensuing year based on the consumer mix and current tariff without taking into account the collection efficiency is even lower than the approved figure of FY2008-09 where as number of consumer as well as connected load has increased.

Hon'ble Commission has issued Distribution Tariff Regulations 2006 that require ARR shall separately indicate Aggregate Revenue Requirement (ARR) for wheeling & Retail supply function embedded in the distribution function. Till such time complete segregation of accounts between Wheeling and Retail Supply Business takes place, ARR proposals for Wheeling and Retail Supply Business shall be prepared based on an allocation statement to the best judgment of the distribution licensee. The FY 2008-09 Tariff Order is the first Order issued by the commission in accordance with the Distribution Tariff Regulation, in this tariff order commission used allocation methodology for segregation of wheeling & retail supply business function of ARR. The Petitioner has also adopted same methodology for driving wheeling charges, as the complete segregation of account between wheeling and retail supply business has not yet been completed.

Distribution Tariff regulation state that annual expenditure of distribution licensee comprises of following components:

- a) Power Purchase Cost
- b) Transmission Charge
- c) Operation & Maintenance Expense
- d) Depreciation
- e) Interest & Financing Costs and Retail Supply Business
- f) Bad and Doubtful Debts
- g) Return on Equity
- h) Taxes on Income
- i) Other expense
- j) Contribution to Contingency Reserve

This section provides above components of the ARR for FY 2009-10. The petitioner has estimated ARR for FY 2009-10 based on provisional un-audited account of FY2007-08 and expenses available till date of FY2008-09. In order to put the various estimated amounts in proper context, the corresponding figures for FY 2007-08 and various estimates for FY 2008-09 & FY 2009-10 based on year-to-date experience are also presented where it is considered appropriate. For each such major account category of expenses, an explanation for the deviation is given, along with the logic for departing from FY 08 & FY 09 values, if applicable.

Further Tariff regulation provide that O&M expenses and other expense shall be escalated on the basis of prevailing rate of inflation from base figure & inflation shall be calculated on the basis of indexes notified by central government. Therefore Petitioner has calculated inflation index in following section

4.1 Escalation Index/Inflation Rate

Regulation issued by Hon'ble commission provides that expenses of the base year shall be escalated at inflation rate notified by central government for different years. The inflation rate for this purpose shall be weighted average of wholesale Price Index and Consumer Price Index in the ratio of 60:40. Therefore for the purpose of this ARR petitioner has used this methodology in arriving at Escalation Index/ Inflation Rate. Calculation as tabulated below:

Inflation Rate=0.6*Inflation based on WPI + 0.4*Inflation based on CPI

Table 4-1: Escalation Index

Month	Wholesale Price Index			Consumer Price Index		
	2007	2008	2009	2007	2008	2009
Jan	208.8	218.1	0	127	134	148
Feb	208.9	219.9	0	128	135	148
Mar	209.8	225.5	0	127	137	
Apr	211.5	228.5	0	128	138	
May	212.3	231.1	0	129	139	
Jun	212.3	237.4	0	130	140	
Jul	213.6	240	0	132	143	
Aug	213.8	241.2	0	133	145	
Sep	215.1	241.5	0	133	146	
Oct	215.2	239	0	134	148	
Nov	215.9	234.2	0	134	148	
Dec	216.4	229.7	0	134	147	
Inflation	6.15%			9.70%		
Weighted Average (CPI 40%:WPI 60%)				7.57%		

WPI-<http://eaindustry.nic.in>CPI-<http://labourbureau.nic.in/intab.html>

4.2 Power Purchase Costs

Some key issues to be considered in forecasting power purchase units & costs for FY2009-10:-

- The Power Purchase expenses estimated are based on losses of 26% in FY 2009-10
- Kesco is a 100% subsidiary of UPPCL and sources all its power purchases from UPPCL (through Dakshinanchal Vidyut Vitran Nigam Limited)
- The Hon'ble Commission in its Tariff Order for FY 2007-08 & FY 2008-09 for UPPCL while computing the Bulk Supply Rate for Kesco had considered an increase in BST from Rs 2.41 per unit to Rs 2.55 per unit in FY 2007-08 and to Rs 2.69 in FY 2008-09 (inclusive of Transmission charges).
- UPPCL in its ARR and Tariff Petition for FY 2009-10 have estimated Power Purchase Cost of Rs 15,795 crores for purchases of 57,800 MU. Out of 57,800 MU; 54,345 MU would be delivered to DisComs. The effective Power Purchase rate for DisComs comes to

Rs 2.91 per unit. The Transmission tariff has been estimated at Rs 0.243 per unit for FY 2009-10 by UPPTCL. Hence the Total Bulk Supply Tariff has been computed at Rs 3.153 per unit.

Power Purchase Costs of Kesco are summarized in table below for FY 2007-08 to FY 2009-10

Table 4-2: Power Purchase Costs

Particulars	Unit	FY 2007-08	FY 2008-09	FY 2009-10
Energy Sales for the year	MU	1703	1867	2054
T&D Losses	%	36.1%	29.1%	26.0%
Power Purchase	MU	2664	2632	2776
Power Purchase Cost per unit	Rs.	2.55	2.69	3.15
Power Purchase Cost	Rs Crs	679.30	708.10	875.29

4.3 Operation & Maintenance Expenses

Operation & maintenance expenses comprise Employee costs, Administrative & General Expenses and Repair & Maintenance expenses. The regulation 4.3 of the Distribution Tariff Regulation issued by the Commission stipulates:

- 1- The O&M expenses comprise of employee cost, repairs & maintenance (R&M) cost and administrative & general (A&G) cost. The O&M expenses for the base year shall be calculated on the basis of historical/audited costs and past trend during the preceding five years. However, any abnormal variation during the preceding five years shall be excluded. For determination of the O&M expenses of the year under consideration, the O & M expenses of the base year shall be escalated at inflation rates notified by the Central Government for different years. The inflation rate for above purpose shall be the weighted average of Wholesale Price Index and Consumer Price Index in the ratio of 60:40. Base year, for these regulations means, the first year of tariff determination under these regulations*
- 2- Where such data for the preceding five years is not available the Commission may fix O&M expenses for the base year as certain percentage of the capital cost.*
- 3- Incremental O&M expenses for the ensuing financial year shall be 2.5% of capital addition during the current year. O&M charges for the ensuing financial year shall be sum of incremental O&M expenses so*
- 4- worked out and O&M charges of current year escalated on the basis of predetermined indices as indicated in regulation 4.3 (1).."*

However in last tariff order Commission was of the opinion that a suitable norm for allowance of O&M expenses could be adopted only after undertaking a thorough study of the O&M expenditure based on the past performances, and the cost drivers of the same, through a separate process. This study also has to be backed by audited information for the past which needs to be made available by the licensees. Only then the true picture if the trend in the O&M expenses may emerge. Till any such norm for O&M expenditure is determined, the Commission emphasised considering the individual elements of O&M expenditure.

As stated above, in the absence O&M norms petitioner has estimated individual components of O&M expenses based on methodology described in following section:

4.3.1 Employee costs

The projection of employee costs involves a detailed examination of the various components of salary such as basic pay and dearness allowance for the various grades of employees. It would also involve an understanding of the extent of employee retirements in the FY 2009-10. Considering above Petitioner has estimated employee cost for FY2009-10 based on un-audited data of FY2007-08 and data available for FY2008-09 to date. Here it is also to mention that in FY 2009-10 petitioners have taken impact of increase due to implementation of sixth pay commission. The employee cost for Kesco is computed in following table:

Table 4-3: Details of Employee Cost (Rs Crs)

Particulars (Rs Crs)	FY 2007-08	FY 2008-09	FY 2009-10
	Unaudited	Projection	Projection
Salaries	30.47	29.67	50.14
Dearness Allowance	11.52	15.50	12.53
Other Allowances & Relief	2.79	2.94	4.01
Over time			
Bonus/Exgratia	1.06	1.25	1.04
Medical Expenses Reimbursement	0.72	0.68	0.76
Leave Travel Assistance	0.00	0.01	0.01
Earned Leave Encashment	1.60	0.79	0.91
Compensation	0.20	0.00	0.10
Staff Welfare Expenses	0.02	0.13	0.22
Pension and gratuity	7.40	8.62	11.96
Grand Total	55.79	59.58	81.68
Employee expenses capitalized	9.02	8.94	12.25
Net Employee Expenses	46.77	50.65	69.43

As mentioned above evolution of sub account of employee cost has been forecasted from base figure of FY2007-08 balance sheet and actual figure available for FY2008-09 till date. While projecting the expenses for ensuing year, petitioner has endeavoured to control the employee expenses but cost has increased due to impact of pay commission factor which is totally beyond the control of the petitioner. Various sub account are estimated as follows:

- Basic salary: The petitioner would like to submit that the projected growth in basic salaries in FY2008-09 is due to mainly time bound increment and annual increase in pay. The annual increase depends on the pay scale of an employee and such increase is mandatory for employees. Therefore petitioner has estimated basic salaries for FY2008-09 as per actual cost incurred on this account till date & for FY2009-10 basic salaries has been projected to increase by 69% from FY2008-09 cost due to implementation of sixth pay commission recommendation.
- Dearness Allowance (DA) is estimated to be 52.25 % (47% for 3 month & 54% for 9 month) for FY2008-09 and for FY2009-10 DA has been projected 25%.
- Other allowance has been forecast to be 8% of basic salary.
- Likewise, Medical Expenses have been forecast to increase by inflation index per year from FY07, taking 3% as contingency.
- Pension and Gratuity have been calculated at 16.7% and 2.38% (i.e., 19.08%) of Basic Salary and Dearness Allowance.
- Leave travel Assistance & compensation is assumed to be .01% & 0.2% of Basic Pay respectively.
- Staff welfare ex. Is assumed to in same ratio as actually incurred in FY09.
- Employee Expenses Capitalized has been calculated as 15% of total Employee Costs, which is in line with the policy adopted by the commission in its last tariff order.

4.3.2 Administration and General (A&G) Expenses

These expenses are incurred by the petitioner for meeting the day-to-day expenses relating to the administration of its offices, insurance, communication, professional charges, audit fees, advertisement expenses, freight etc. All these expenses are directly affected by inflation. Therefore A&G expenses have been projected considering the impact of inflation and need for addition of more substation and offices. Forecast A&G expenses for Kesco is summarized below in Table, beginning with the figures from the un-audited statements of FY08.

Table 4-4: A &G Expenses (Rs Crs)

Particulars (Rs Crs)	FY 2007-08	FY 2008-09	FY 2009-10
	Unaudited	Projection	Projection
Rent rates and taxes	0.67	0.00	0.00
Insurance	0.03	0.03	0.04
Telephone,Postage,Telegram, Internet Charges	0.42	0.40	0.43
Consultancy Charges	0.16	0.20	0.22
Travelling	0.08	0.07	0.08
Technical Fees	0.00	0.01	0.01
Other Professional Charges	0.00	0.02	0.02
UPERC License fee	0.00	0.39	0.43
Fee And Subscriptions (Books And Periodicals)	0.20	0.30	0.32
Printing And Stationery	0.31	0.95	1.02
Advertisement Expenses	0.15	0.18	0.20
Electricity Charges To Offices	6.99	7.35	7.91
Miscellaneous Expenses	0.10	0.11	0.12
Billing & Collection Expenses	1.44	2.71	2.91
Legal Charges	0.19	0.22	0.24
Auditor's Fee	0.01	0.01	0.01
Provision for FBT	0.03	0.00	0.00
Other Debits to Revenue Account	0.00	0.00	0.00
Total	10.77	12.96	13.95
Expenses capitalized	0.58	1.94	2.09
Net Administrative and General Expenses	10.19	11.02	11.86

- As a reflection of the continuing commitment of the Petitioner to keep costs under control, almost all A&G Expenses have been escalated by inflation index per year across the board to only offset the effect of inflation.
- In addition to above regulatory expenses Rs 10 lacs application fees and 0.05% of revenue license fees has been added in A&G expenses in FY2008-09 & FY2009-10 which is Rs 0.39 & 0.43 crs respectively.
- Billing & collection expenses also include expenses incurred on Online Billing & expenses on camps. Billing & collection expenses relate to expenses incurred due to out sourcing of billing work, use of hand held machines, etc. Further petitioner is planning to use various information technology (IT) initiatives such as implementation of software solution, networking (Both local area network & wide area network), retail billing solution, Energy billing System, Energy accounting system etc, to drive operational efficiency improvement.

- Capitalisation is projected to be 15 % of A&G cost. This is consistent with the approach adopted by the Commission in its current Tariff Order.
- The petitioner has taken several steps for enhancing customer care, system augmentation and computerization for better process management .It has also taken steps to increase communication network with the field units/ persons so as to reduce the down time for restoration of supply and better data management.

4.3.3 Gross Fixed Assets (GFA) Balances and Capital Formation Assumptions

The estimated numbers of ARR component are dependent on FY10 opening balance of GFA, one of which is R&M. It is therefore appropriate at this point to provide FY10 GFA estimates, as well as estimates for other fixed asset accounts. The assumptions used for projecting GFA and CWIP are as follows:

- The opening GFA and CWIP for FY 2007-08 have been taken as per the opening figures from provisional annual accounts of FY 2007-08.
- 40% of the opening CWIP and 40% of investment made during the year, expenses capitalised & interest capitalised (40% of total investment) has been assumed to get capitalised during the FY 2007-08 & FY 2008-09.
- During FY 2009-10 only the spill-over of previous years Capital Investment programme amounting to Rs 6.44 crs on account of laying of Aerial Bunch Conductors has been taken into consideration. Deposit works for FY 2009-10 has been projected at Rs 8.11 crs. Such projection is based on the amount actually received in the first 4 months of FY 2009-10
- 70% of the opening CWIP and 70% if investment made during the year including expenses & interest capitalized has been assumed to get capitalized during the FY 2009-10
- Investment through “deposit work “has not been taken for capital formation as per policy adopted by commission in its last tariff Order. Thus investment in capital formation shown in tables below doesn’t include work funded through deposit work.

Table 4-5, 4-6 & 4-7 shows Licensee’s investment plan for FY08, FY09 and FY10 along with the proposed funding of each component of the investment plan. Tables 4-8, 4-9 & 4-10 show the Petitioner’s GFA estimates for FY08, FY09 and FY10 respectively

Table 4-5: Investment Plan for FY 2007-08 (Rs Crs)

Fund/ Source	Investment Plan	FY 2007-08				Total
		Loan	Grant	Equity	IR	
GoUP	APDRP		0.03			0.03
	System Improvement			37.04		37.04
PFC	System Improvement					0.00
	APDRP	16.50				16.50
Others	Deposit Works/System Improvement				7.50	7.50
Total (A)		16.50	0.03	37.04	7.50	61.06

Table 4-6: Investment Plan for FY 2008-09 (Rs Crs)

Fund/ Source	Investment Plan	FY 2008-09				Total
		Loan	Grant	Equity	IR	
GoUP	APDRP					0.00
	System Improvement		0.74	55.42		56.16
PFC	System Improvement	31.27				31.27
	APDRP	2.96				2.96
Others	Deposit Works/System Improvement				4.08	4.08
Total (A)		34.23	0.74	55.42	4.08	94.47

Table 4-7: Investment Plan for FY 2009-10 (Rs Crs)

Fund/ Source	Investment Plan	FY 2009-10				Total
		Loan	Grant	Equity	IR	
GoUP	APDRP					0.00
	System Improvement		0.00	0.00		0.00
PFC	System Improvement	6.44				6.44
	APDRP	0.00				0.00
Others	Deposit Works/System Improvement				8.11	8.11
Total (A)		6.44	0.00	0.00	8.11	14.55

Table 4-8: Capital Formation during FY 08 (Rs Crs)

Rs crore	Balance 01-April-07	Invest- ments	Cap' interest	Cap' expenses	To GFA	Depre- ciation	Balance 31-Mar-08
Gross Fixed Assets	316.55				47.89		364.44
Accumulated Depreciation	155.98					24.22	180.20
Work in Progress	53.03	53.56	3.52	9.60	-47.89		71.83

Table 4-9: Capital Formation during FY 09 (Rs Crs)

Rs crore	Balance 01-April-08	Invest- ments	Cap' interest	Cap' expenses	To GFA	Depre- ciation	Balance 31-Mar-09
Gross Fixed Assets	364.44				70.71		435.15
Accumulated Depreciation	180.20					28.03	208.23
Work in Progress	71.83	90.39	4.78	9.78	-70.71		106.07

Table 4-10: Capital Formation during FY 10 (Rs Crs)

Rs crore	Balance 01-April-09	Invest- ments	Cap' interest	Cap' expenses	To GFA	Depre- ciation	Balance 31-Mar-10
Gross Fixed Assets	435.59				94.14		529.73
Accumulated Depreciation	208.23					33.69	241.92
Work in Progress	106.73	6.44	6.96	14.34	-94.14		40.34

- Notes:** (1) Balances as per provisional figures of FY08.
(2) Capitalized expenses are from Table 4-3 & 4-4
(3) Interest Capitalisation as per Table 4-14

4.3.4 Repair and Maintenance (R&M) Expenses

The Hon'ble commission in the last Tariff Order has approved a total R&M expenditure of Rs 11.50 crs for FY 2008-09 while the petitioner has estimated the total R&M expenses for FY 2008-09 at Rs 17.91 crs which is more than approved amount of the commission.

The Petitioner has endeavoured to keep in control the R&M expense and the result is that the increase in R&M expense in FY 2008-09 is only 1.7% over the FY 2007-08 R&M expense.

The Petitioner would like to submit that its R&M expenses cannot be directly compared with other DisComs as the distribution network of Kesco is having mostly 33KV and 11KV underground cables and as such the maintenance cost of attending a break down in underground cable network is many times higher than that of an overhead cable network. In case of 33KV underground line breakdown cost may go up to 15 to 20 times than that of an

overhead network breakdown. Further, the Petitioner submits that it has inherited an aged, weak & inadequate distribution system which has outlived its normal life and due to this age old system the power breakdowns are frequent.

In the projection for FY 2009-10 the increase in R&M cost is mainly attributed to substantial increase in raw material and fuel cost. The metal prices have increased phenomenally as compared to past few years. This has substantially increased the cost burden to the petitioner. Moreover, the petitioner has added a number of transformers, cables, grid substation, etc for which there has been an increase in the amount of annual maintenance contracts, this has translated to a higher R&M expenses in the ensuing year for the petitioner. Further petitioner has initiated proactive preventive maintenance and capital expenditure to improve the quality of supply in its distribution area and reduction in number of overloaded transformer etc. The forecast R&M expenses for the FY 2009-10 are summarized below in Table, beginning with the provisional figures of FY08.

Table 4-11: R&M Expenses (Rs Crs)

Particulars (Rs Crs)	FY 2007-08	FY 2008-09	FY 2009-10
	Unaudited	Projection	Projection
Plant and Machinery	4.55	10.11	11.05
Building	2.28	0.54	0.59
Civil Works	0.00	0.01	0.01
Hydraulic Works	0.00	0.00	0.00
Lines, Cables Net Works etc.	10.70	5.34	5.84
Vehicles	0.00	1.73	1.90
Furniture and Fixtures	0.08	0.17	0.19
Office Equipments	0.00	0.00	0.00
Total	17.61	17.91	19.58

- The forecast R&M Expenses are estimated as 4.5% of the opening GFA balances for FY10. It is mainly due to the facts that the distribution network is currently getting inadequate maintenance thereby having an impact on the quality and quantity of supply of power. Therefore, there is a urgent need to provide more funds for R&M activities. So, Petitioner has provided R&M expenses as 4.5% of opening GFA.
- Unfortunately due to tight financial position and heavy cash losses, system improvement and preventive maintenance are not achieved to the expected level due to frequent breakdowns and supply interruptions. Petitioner always spent money, which are urgently

required for restoration of supply. In addition to these planned activities there will be some unforeseen R&M expenses, which are inevitable. The amounts, which are so worked out, are spread out proportionally among the sub-accounts.

4.4 Depreciation expense

FY 2007-08, FY 2008-09 & FY 2009-10 may be estimated with reference to Tariff Filing Format F-8 which has projected the Opening GFA balances for the years. Applying the rates specified by the Commission in Distribution Tariff Regulations to these balances results in a Depreciation Expense of Rs 24.22 crores, Rs 28.03 crores & Rs 33.69 crores in FY 2007-08, FY 2008-09 & FY 2009-10 respectively

4.5 Provision for Bad and Doubtful Debts

Provisions have been made for bad and doubtful debts at 2% of revenue receivables in line with the section 4.4 of UPERC (Terms and Conditions for Determination of Distribution Tariff) Regulations, 2006 issued on 6th October 2006. Accordingly the Bad and Doubtful Debts have been estimated as 2% of the revenue receivable. In the last Tariff Order Commission disallowed this component due to absence of any clear-cut policy. It is further submitted that provision for bad & doubtful debts are accepted accounting principle even in sector like Banking the provisioning of un-collectible dues are considered as a normal commercial practice.

Despite the Commission's views on this component of ARR, It is humbly submitted to the Hon'ble Commission that annual provisioning towards bad and doubtful debts is an accepted method of accounting and also recognised by other State Electricity Regulatory Commissions. The amount, if any, written off towards bad debts is only adjusted against the accumulated provisions in the books, irrespective of the actual amount of bad debts during any particular year. Therefore petitioner maintains that this is a legitimate ARR component. As such petitioner has made provisions for bad debts of Rs 33.16 crores for FY 2009-10. The forecast Provision for Bad and Doubtful Debts from FY 2007-08 to FY 2009-10 are summarized below in Table below:

Table 4-12: Provision for Bad and Doubtful Debts

Particulars (Rs Crs)	FY 2007-08	FY 2008-09	FY 2009-10
Revenue Receivables	1507.29	1602.21	1658.04
Percentage of Debt Allowed	2%	2%	2%
Provision for Bad Debts	30.15	32.04	33.16

4.6 Interest and Financing Costs

The interest and finance cost for FY 10 are based on current schedule of long-term debt repayment and new (residual capex schemes) debt requirements for capital investment plan.

An estimate of the evolution of long term & short term debt to the end of the FY 10 along with FY 08 & FY 09 and corresponding to the Investment Plan is tabulated below:

Table 4-13: Projected Loan Balances (Rs Crs)

Sr No.	Particulars (Rs Crs)	As at 31st March 2008	As at 31st March 2009	As at 31st March 2010
<u>LONG TERM DEBT</u>				
1	From UPPCL (Balance as per transfer of KESA Zone Electricity distribution Scheme, 2000)	110.00	110.00	110.00
2	Terminal Benefit Liability as per Transfer Scheme and interest accrued and due thereon	132.25	132.25	132.25
3	GoUP APDRP (through UPPCL)	4.04	4.04	4.04
4	PFC APDRP	57.32	52.54	46.19
5	PFC Loan (ABC)	0.00	31.27	37.71
<u>SHORT TERM DEBT</u>				
6	PFC STL		92.21	
Total		303.62	422.32	330.20

The forecast Provision for Interest and Financing Costs is summarized as under beginning with the FY08 provisional figures.

- Interest & financing cost include interest on working capital requirement. Here petitioner would like to submit that working capital requirement of the licensee is more than what commission allowed in its last tariff order based on normative value. It is mainly due to the fact that petitioner is facing severe cash crunch as there is vast difference between revenue assessment of petitioner & commission's projection and petitioner find it difficult to meet out even its power purchase obligation from its revenue assessment. Therefore it is humbly requested to kindly allow working capital requirement as requested.
- Finance charges comprising of cost of raising finance, etc have been projected to be 0.5% of loan draws during the pertaining financial year

- Section 47(4) of electricity Act 2003 states that “the distribution licensee shall pay interest equivalent to the bank rate or more, as may be specified by the concerned State Commission, on the security referred to in sub- section (1) and refund such security on the request of the person who gave such security”.

The Hon’ble commission in last Tariff order allowed interest to consumer on security deposit on opening balance of security deposit at the beginning of the year at prevailing bank rate of 6% as notified by RBI. In this petition interest on security deposit has been computed on same manner

Table 4-14: Projected Interest & Finance Cost

Particulars (Rs Crs)	As at 31st March 2008	As at 31st March 2009	As at 31st March 2010
<i>(A) Interest Charges on Long Term Loans</i>			
GoUP APDRP (through UPPCL)	0.62	0.62	0.62
PFC APDRP	5.03	6.07	5.63
PFC Loan	0.00	0.77	4.32
Sub Total (A)	5.65	7.45	10.56
<i>(B) Interest Charges on Short Term Loans</i>			
PFC STL	0.00	9.26	4.05
Sub Total (B)			
<i>(C) Other Interest & Finance Charges</i>			
Other interest including OD	0.47	0.09	0.10
Finance Charges	0.00	0.91	0.03
Discount to Consumers	3.18	0.46	0.50
Interest on Consumer Security Deposit	5.13	5.85	6.43
Sub Total (C)	8.77	7.31	7.06
Grand Total Of Interest & Finance Charges	14.42	24.02	21.67
Less: Interest Capitalisation	3.52	4.78	6.96
Net Interest and Finance Cost	10.90	19.24	14.71

4.7 Other Income

Other income includes non tariff income such as interest on loans and advances to employee, income from fixed rate investment deposits, interest on loans and advances to licensees and other miscellaneous income from retail sources. Summary of other income is given below beginning with figure from provisional estimates of FY2007-08 & FY 2008-09. The amount has been forecasted to grow at the rate of inflation index from base figure of FY2008-09 to arrive at figure for FY2009-10.

Table 4-15: Other Income

Particulars (Rs Crs)	FY 2007-08	FY 2008-09	FY 2009-10
	Unaudited	Projection	Projection
Income from Investment	0.56	0.21	0.23
Miscellaneous Receipts	2.55	2.47	2.65
Total	3.12	2.68	2.88

4.8 Reasonable return/ Return on Equity

The Regulation 4.10 of Distribution Tariff Regulations 2006 provides for RoE @16% on equity base. The relevant extract of the regulations are as under:

- Return on equity shall be allowed @16%, on the equity base determined in accordance with regulation 4.7. However, the Commission may reduce/raise the rate of return subject to performance of the distribution licensee vis-à-vis performance benchmarks set by the Commission.*
- Equity invested in foreign currency shall be allowed a return up to the prescribed limit in the same currency and the payment on this account shall be made in Indian Rupees based on the prevailing exchange rate.*
- The premium raised by the distribution licensee while issuing share capital and investment of internal resources created out of free reserves, if any, for the funding of the project, shall also be reckoned as paid up capital for the purpose of computing return on equity, provided such share capital, premium amount and internal resources are actually utilized for meeting the capital expenditure of the distribution system and forms part of the approved financial package.*
- Return on equity shall be chargeable from the first year of operation. In case of infusion of equity during the year, return on equity shall be charged on pro-rata basis.*

Under provisions of the Regulations licensees are permitted a return on equity @ 16% which is worked out as under:-

- For equity base calculation debt equity ratio shall be 70:30.
- Where equity employed is more than 30%, the amount of equity for the purpose of tariff shall be limited to 30%.
- Equity amount more than 30% shall be considered as loan.

- Provided that in case that actual equity employed is less than 30%, actual debt and equity shall be considered for determination of tariff.

In the ARR submission for FY2008-09, petitioner had requested for return on equity which was rejected by the Hon'ble Commission. The Petitioner had preferred an appeal with the Hon'ble Commission in this regard and the matter is pending for disposal.

The Petitioner would like to reiterate its contention which it had raised in the Review Petition through relevant extracts of the Review Petition

Quote-

The Petitioner in its Annual Revenue Requirement application had sought Return on Equity in concurrence with Regulation 4.10 of the Distribution Tariff Regulations 2006 which provides for RoE @ 16% on equity base.

In this regard, the Hon'ble Commission had computed the RoE as follows:

Table: Calculation of Return on Equity for the year 2007-08.

Description	FY 2007-08	FY 2008-09
Opening Equity	60	71.94
Addition to Equity (Portion of Capital Expenditure of Capitalised Assets)	11.94	23.17
Closing Equity	71.94	95.11
Return Computation		
Return on Equity at the beginning of the year	9.60	11.51
Return on Equity (On addition during the year)	0.96	1.85
Total Return on Equity	10.56	13.36

However the Hon'ble Commission had disallowed Return on Equity to the Petitioner on the following grounds:

1. *The Loss levels of Kesco are higher as compared to other Distribution utilities of the state and in particular with NPCL*
2. *No other government owned distribution companies have claimed return on equity*

Kesco has its reservations on the above two observations based on which the Hon'ble Commission has disallowed return on equity to the Petitioner.

The loss levels of Kesco are similar with the other government owned distribution companies of the state. The Hon'ble Commission in its tariff order for distribution companies had approved distribution losses of 25.4% for Agra and Lucknow DisCom and 25% for Kesco. Kesco understands

the fact that the distribution losses in its supply area are high. However at the same time it endeavoring to bring down the loss levels by strict enforcement and incurring heavy capital expenditure for system improvement.

However NPCL and Kesco's loss levels are not comparable due to the following reasons

1. Consumer Mix and Consumer Sales Mix

The Petitioner feels it would not be prudent to compare the losses of Kesco with NPCL as both have contrasting consumer and sales mix. Given below are two pie charts which depict the Consumer profile of Kesco and NPCL

Table: Consumption profile of Kesco for the year 2007-08.

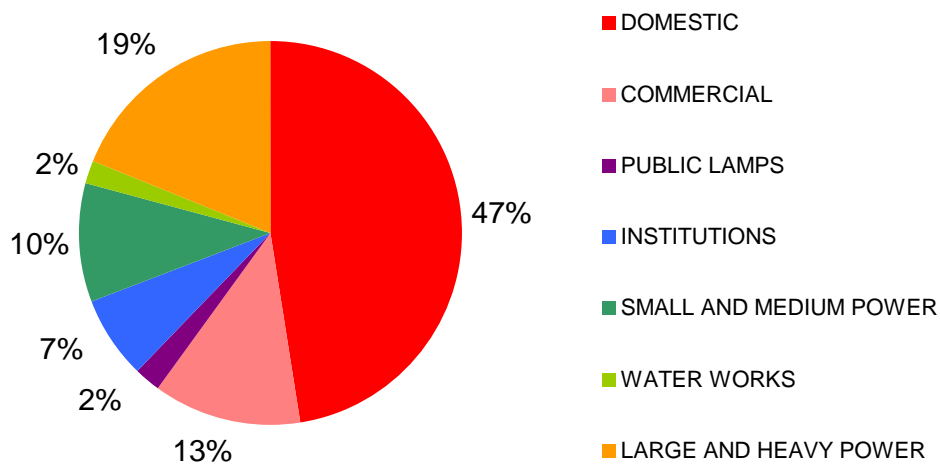
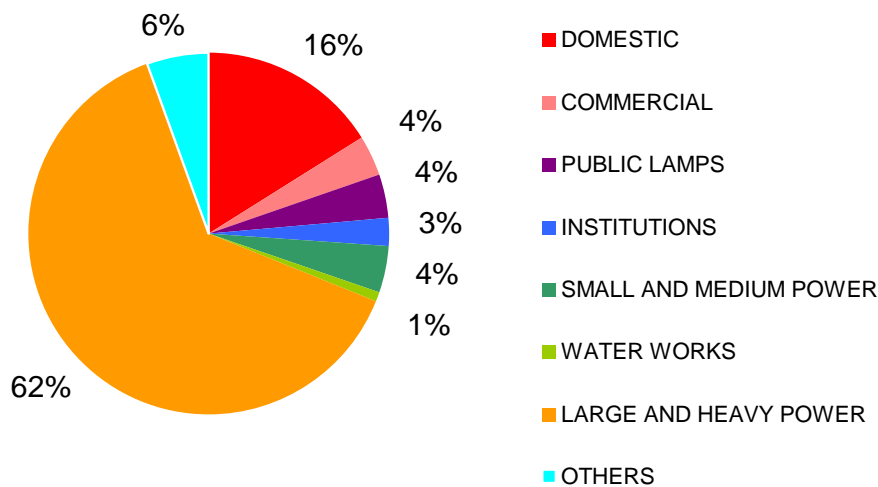


Table: Consumption profile of NPCL for the year 2007-08.



A comparison of the two reveals that the consumption profile of the two utilities is very different. While Domestic consumers account for 47% of the total supply of Kesco it is only 16% for NPCL. Large and Heavy Power accounts for 62% of supply of NPCL, however the same category accounts for 19% in Kesco.

2. Variance in the number of consumers in its supply area

The numbers of consumers in NPCL supply area are barely thirty six thousand, whereas the numbers of consumers in Kesco supply area are around five lakh. A bigger and dense supply area of Kesco makes enforcement difficult.

3. Percentage of HT/LT sales mix

NPCL has high supply (64%) on HT where losses are minimal in contrast with Kesco where LT supply is pre-dominant. Also with the flight of industries from Kesco supply area, the ratio of HT/LT has widened in favour of LT with the resultant rise in technical losses. This was the sole reason for the increase in losses in the years 2002-03 to 2004-05 as this was the period when the region saw a flight of industries.

Kesco has sought return on equity in consonance with Regulation 4.10 of the Distribution Tariff Regulations 2006 which provides for Return on Equity @ 16% on equity base. It is pertinent to note that NPCL another distribution licensee similar to Kesco was allowed return on equity in line with Distribution Tariff Regulations. The Petitioner feels that argument of disallowance of Return on Equity just because no other government owned distribution companies have claimed return on equity is random and inconsistent.

The Petitioner would also like to submit that various financial institutions (like PFC) impose a condition in their loan agreements that Kesco must claim and get approval of return on equity in their Annual Revenue Requirement Petitions. If the above issue is not reviewed in favour of the Petitioner, it might hamper the Capital Expenditure programmes of Kesco as future disbursements of loans might get held back.

Unquote-

For FY 2009-10 the Petitioner would like to reiterate its contention which it had raised in the Review Petition and would like to seek Return on Equity. Based on the methodology for computation of return on equity used by the Hon'ble Commission in FY 2008-09's Tariff Order, the Petitioner is seeking Rs 18.62 crores as Return on equity for FY 2009-10

Table 4-16: Return on Equity

Particulars (Rs Crs)	FY 2007-08	FY 2008-09	FY 2009-10
Opening Equity Employed	60.00	103.58	159.00
Equity Employed (Based on Actuals)	43.58	55.42	
Closing Equity Employed	103.58	159.00	159.00
Capitalised Assets during the year	47.89	71.15	94.14
Addition to Equity (Portion of Capital Expenditure of Capitalised Assets)	14.37	21.35	28.24
Opening Regulatory Equity	60.00	80.91	102.25
Equity for APDRP	6.54		
Addition to Equity (Portion of Capital Expenditure of Capitalised Assets)	14.37	21.35	28.24
Closing Regulatory Equity	80.91	102.25	130.49
<u>Return Computation</u>			
Return on Equity at the beginning of the year	10.65	12.95	16.36
Return on Equity (On addition during the year)	1.15	1.71	2.26
Total Return on Equity	11.80	14.65	18.62

4.9 Contribution to contingency reserve

The contingency reserve creation permitted in the Regulation is up to 0.5% of opening gross fixed assets to be included in the ARR requirement of the petitioner.

Regulation requires that contingency reserve shall be invested in Govt. securities. As there is a big revenue gap between ARR and revenue forecast, as such this component will only enhance the Gap and create extra burden on the consumers so for present ARR Licensee is not claiming this component.

4.10 Retail & Wheeling Business ARR Summary

The FY 2009-10 Retail & Wheeling Business ARR along with revenue gap for ensuing year at current tariff is summarized below in Table 4-17:

Table 4-17: Annual Revenue Requirement

Particulars (Rs Crs)	FY 2007-08	FY 2008-09	FY 2009-10
	Unaudited	Estimated	Projection
Power Purchase (MU)	2664	2632	2776
Units Sold (MU)	1703	1867	2054
Power Purchase Cost (At BST)	679.30	708.10	875.29
Employee Cost (Net of Capitalisation)	46.77	50.65	69.43
A&G Expense (Net of Capitalisation)	10.19	11.02	11.86
R&M Expense	17.61	17.91	19.60
Interest & Finance Charges (Net)	10.90	19.24	14.71
Provision for Bad and Doubtful Debts	30.15	32.04	33.16
Depreciation	24.22	28.03	33.69
Contingency Reserve	0.00	0.00	0.00
Return of Equity	11.80	14.65	18.62
Other (Misc.)-net prior period credit			
Total Expenses	830.93	881.63	1076.36
Less: Other Incomes	3.12	2.68	2.88
Total Annual Revenue Requirement	827.81	878.95	1073.47
Revenue From Existing Tariffs	645.47	705.96	930.51
Remaining Gap	182.34	172.99	142.96

4.11 Wheeling and Retail Supply

Clause 2.1(2) & (3) of the Term & Conditions for Determination of Distribution Regulations provide that ARR/Tariff filing by the Distribution Licensee shall separately indicate Aggregate Revenue Requirement (ARR) for Wheeling function and Retail Supply function embedded in the distribution function. Till such time complete segregation of accounts between Wheeling and Retail Supply Business takes place, ARR proposals for Wheeling and Retail Supply Business shall be prepared based on an allocation statement to the best judgment of the distribution licensee.

Here it is to submit that still complete segregation of account between Wheeling and retail supply has not taken place, therefore petitioner has adopted the basis of allocation of the expenses in line with the methodology used by Hon'ble Commission in its FY 2008-09 Tariff Order.

Allocation of ARR into wheeling & retail supply for FY2009-10 has been estimated into following table:

Table 4-18: Wheeling & Retail supply ARR

Particulars (Rs Crs)	Allocation %		Allocation FY 2009-10		
	Wheeling	Supply	Wheeling	Supply	Total
Power Purchase Expenses	0%	100%	0.00	807.83	807.83
Transmission Charges - Intra State	0%	100%	0.00	67.46	67.46
Employee Cost	60%	40%	49.01	32.67	81.68
A&G Expenses	40%	60%	5.58	8.37	13.95
R&M Expenses	90%	10%	17.64	1.96	19.60
Interest Charges	90%	10.00%	19.50	2.17	21.67
Depreciation	90%	10.00%	30.32	3.37	33.69
Gross Expenditure			122.05	923.83	1045.88
Expenses Capitalisation					
<i>Employee Cost Capitalised</i>	60%	40.00%	7.35	4.90	12.25
<i>Interest Capitalised</i>	90%	10.00%	6.26	0.70	6.96
<i>A&G Expenses Capitalised</i>	40%	60.00%	0.84	1.26	2.09
Net Expenditure			107.60	916.98	1024.58
Special Appropriation					
Provision for Bad & Doubtful Debts	0%	100.00%	0.00	33.16	33.16
Provision for Contingency Reserve	0%	100.00%	0.00	0.00	0.00
Prior Period Adjustment	0%	100.00%	0.00	0.00	0.00
Total Net Expenditure with Provision			107.60	950.14	1057.74
Add: Reasonable Return / Return on Equity	90%	10.00%	16.76	1.86	18.62
Less: Non Tariff Income	0%	100.00%	0.00	2.88	2.88
Annual Revenue Requirement (ARR)			124.36	949.12	1073.47

5 Treatment of Revenue Gap

Outlined below is the treatment of the revenue gap for the financial year 2009-10.

Table 5-1: Treatment of Revenue Gap for FY 2009-10

Particulars (Rs Crs)	FY 2009-10
Gross ARR	1073.47
Revenue from Existing Tariff	780.13
Revenue Gap	293.34
Funded Through	
<i>Tariff Increases</i>	<i>150.38</i>
<i>Government Subsidy</i>	<i>-</i>
<i>Efficiency Improvements Initiatives, Tariff Rationalisation & Other Initiatives</i>	<i>-</i>
Net Revenue Gap Carried Forward	142.96

As can be seen from the above table the Revenue Gap considering existing tariff is to the tune of Rs 293.34 crs. Part of this gap i.e., around Rs 150.38 crs is envisaged to be met through the tariff increase proposed by the state-owned distribution companies in the Tariff Petition for the FY 2009-10 filed on July 30, 2009. The impact of efficiency improvement measures, tariff rationalisation and other initiatives have been considered in the loss reduction targets which have been proposed at significantly lower than actual FY 2008-09 levels.

The Residual Revenue Gap is Rs 142.96 crs. The Petitioner through the appointment of distribution franchisee expects to bring efficiency in operations to the expected benchmark levels. In the interim period, it is not possible for the Petitioner to cover the residual revenue gap.

There are following options before the Petitioner to fill the gap:-

1. Option one is retail tariff amendments. But given the need of uniform retail tariff in the state, the option of increasing the tariffs in KESCO's supply area cannot be exercised.
2. Reduction in the Bulk Supply Tariff rate – This option was rejected by the Hon'ble Commission in the FY 2008-09 tariff order

3. The third option is to restrict the licensee to borrow an amount equivalent to the gap where the interest on this loan would be pass through in tariff. However this would entail additional burden on the consumer

In order to avoid that, the Petitioner proposes to treat the revenue gap as a Regulatory Asset. This creation of Regulatory Asset is in line with the provisions of the Distribution Tariff Regulations.

The relevant portion of the regulation is re-produced below:

“6.12 Regulatory Asset:

- 1. Creation of Regulatory Asset only for the purposes of avoiding tariff increase shall not be allowed and it shall only be created to take care of natural causes or force majeure conditions or major tariff shocks. The Commission shall have the discretion of providing regulatory asset.*
- 2. The use of the facility of Regulatory Asset shall not be repetitive.*
- 3. Depending on the amount of Regulatory Asset accepted by the Commission, the Commission shall stipulate the amortization and financing of such assets. Regulatory Asset shall be recovered within a period not exceeding three years immediately following the year in which it is created.”*

In view of the above, the Petitioner proposes to treat the provisional revenue gap as a provisional Regulatory Asset. As discussed earlier a separate revised Petition would be filed by the Petitioner after the Distribution Franchisee takes over the operations of Kesco and all data pertaining to the ARR would be actualised subsequently. Such revenue gap would be actualised in such Petition

6 Prayer

The petitioner prays that the Commission may be pleased to:

- Condone the delay in the submission of the Annual Revenue Requirement by Kesco
- Admit the accompanying Annual Revenue Requirement.
- Approve the Annual Revenue Requirement for financial year 2009-10.
- Allow the Petitioner to revise the Petition after the formal takeover of the operation of the Petitioner by the Distribution Franchisee
- Allow the petitioner to add/change / alter / modify this application at a future date.
- Issue any other relief, order or direction which the commission may deem fit.